

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

For the year ended

30 June 2019

I am responsible for the preparation of these financial statements, which are set out on pages 1 to 93, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs' determination in accordance with the Act.



Mr Anele Qaba

Master of Business Leadership (MBL)
B-Tech: Tourism Management
National Diploma: Travel and Tourism
Diploma: International Trade Management

Acting City Manager

30 August 2019

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2019**

INDEX	Page
General Information	1
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes in Net Assets	5
The Statement of Cash Flows	6
Accounting Policies	7
Notes to the Financial Statements	38
Appendix A: Segmental Statement of Financial Performance - Unaudited	91
Appendix B: Disclosures of Conditional Grants and Subsidies in terms of sec. 123 of the MFMA, 56 of 2003 - Unaudited	92
Appendix C: Analysis of Total Accumulated Surplus - Unaudited	93

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2019

General Information

Legal form of entity	It is a Metropolitan Municipality established in terms of section 155 of the Constitution of the Republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Local Government
	The principal activities are:
	- To provide democratic and accountable government to the local communities;
	- To ensure sustainable service delivery to communities;
	- To promote social and economic development;
	- To promote a safe and healthy environment; and
	- Encourage the involvement of communities and community organisations in the matters of local government.
	The Municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 117 of 1998), the Municipal Systems Act (Act 32 of 2000) and various other acts and regulations.
Executive Mayor	Cllr E Bobani
Deputy Executive Mayor	Cllr T C S Buyeye
Speaker	Cllr B N Mafaya
Chief Whip	Cllr P S Ndoni
Members of the Mayoral Committee	Cllr A W Lungisa (Infrastructure and Engineering and Electricity and Energy) Cllr R Daaminds (Roads and Transport) Cllr M Feni (Human Resources & Corporate Admin) Cllr N Q Pink (Safety and Security) Cllr M Daniels (Economic Development, Tourism and Agriculture) Cllr L Mfana (Sports, Recreation Arts and Culture) Cllr Y M Pali (Public Health) Cllr A C G Mfunda (Human Settlements) Cllr M J Mtsila (Budget and Treasury) Cllr I F Ranyele (Constituency Services)
Accounting Officer (City Manager)	A Qaba (Acting)
Chief Financial Officer (CFO)	MJ Ngcelwane (Acting)

Chief Operating Officer (COO)	M Clay
Chief of Staff	N Nkomane
Metro Police Chief	Y Faro
Executive Directors	N Xhego (Acting - Corporate Services) A Qaba (Economic Development, Tourism and Agriculture) N Nqwazi (Sports, Recreation, Arts and Culture) Mr Andile Tolom (Acting - Public Health) N Gqiba (Human Settlements) Mr Bernardt Lamour (Acting - Electricity and Energy) EW Shaidi (Infrastructure and Engineering) K Meyer (Safety and Security)
Members of the Audit Committee	Mr G Billson (Chairperson) Ms T Cumming Mr YE Amod Mr J Neves Mr SG Zamisa
Registered Office	1 st Floor City Hall
	Govan Mbeki Avenue
	Port Elizabeth
	6001
Business Address	1 st Floor City Hall
	Govan Mbeki Avenue
	Port Elizabeth
	6001
Postal Address	P O Box 116
	Port Elizabeth
	6000
Bankers	ABSA
Auditors	Auditor-General (SA)
Physical Address of Auditors	69 Frere Road
	Vincent
	East London
	5247
Postal Address of Auditors	P O Box 13252
	East London
	5217

1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003). In addition, these Annual Financial Statements include mandatory disclosures in accordance with the Municipal Finance Management Act (Act No 56 of 2003) and related regulations.

The Annual Financial Statements are prepared on the accrual basis of accounting and the transactions, assets and liabilities included in the financial statements are measured at historical cost unless specified otherwise.

With respect to accounting standards for material transactions, events or conditions not covered by Directive 5, the Municipality has developed accounting policies in accordance with paragraphs 8, 10 and 11 of GRAP 3, as read with Directive 5.

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's Annual Financial Statements, unless explicitly stated.

New standards now effective but not yet implemented:

Standard number	Standard name	Effective date from (if applicable)
GRAP 20	Related Party Disclosures	01 April 2019
GRAP 32	Service Concession Arrangements - Grantor	01 April 2019
GRAP 108	Statutory Receivables	01 April 2019
GRAP 109	Accounting by Principals and Agents	01 April 2019
GRAP 18	Segment Reporting	01 April 2020
GRAP 110	Living and Non-living Resources	01 April 2020
IGRAP 17	Service concession arrangements where a grantor controls a significant residual interest in an asset	01 April 2019
IGRAP 18	Recognition and derecognition of land	01 April 2019
IGRAP 19	Liabilities to pay levies	01 April 2019

GRAP 20 – Related Party Disclosures

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. It is expected that adoption of this standard will result in additional disclosures.

GRAP 32 - Service Concession Arrangements – Grantor

This Standard applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset) if certain conditions are met. It is expected that adoption of this standard will not be significant.

GRAP 108 – Statutory Receivables

This standard deals with receivables that arise from legislation, supporting regulations or similar means

and require settlement by another entity in cash or another financial asset. It is expected that adoption of this standard will not be significant.

GRAP 109 – Accounting by Principals and Agents

This standard deals with principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. It is expected that adoption of this standard will not be significant.

GRAP 18 – Segment Reporting

The objective of this standard is to establish principles for reporting financial information by segments. It is expected that adoption of this standard will result in additional disclosures.

GRAP 110 - Living and Non-living Resources

This standard deals with living resources that undergo biological transformation and non-living resources that occur naturally and have not been extracted. It is expected that this standard will not be applicable to the Municipality, as we are not dealing with these resources currently.

IGRAP 17 - Service concession arrangements where a grantor controls a significant residual interest in an asset

The interpretation provides guidance to the grantor where it has entered into a service concession arrangement. It is expected that adoption of this interpretation will not be significant.

IGRAP 18 – Recognition and derecognition of land

This interpretation provides guidance on when an entity should recognize and derecognize land as an asset in its financial statements based on “control”. It also considers joint control of land by more than one entity. It is expected that adoption of this interpretation will result in additional disclosures.

IGRAP 19 – Liabilities to pay levies

The interpretation provides guidance on when to recognize liabilities to pay levies, i.e when the activity that triggers the payment of a liability occurs. It is expected that adoption of this interpretation will not be significant, or none.

2. PRESENTATION AND FUNCTIONAL CURRENCY

These Annual Financial Statements are presented in South African Rand.

The functional currency of the Municipality is South African Rand. Financial values are rounded to the nearest one Rand.

3. GOING CONCERN ASSUMPTION

These Annual Financial Statements have been prepared on a going concern basis.

4. COMPARATIVE INFORMATION

4.1 Current year comparatives (Budget):

In accordance with GRAP 1 and 24, the Budget information has been presented on the face of the Statement of Financial Performance in these Annual Financial Statements.

4.2 Prior year comparatives:

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified and restated. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year and the standards require retrospective adjustment, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The nature and reasons for the reclassifications and restatements are disclosed in Note 40 to the Annual Financial Statements.

5. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

STANDARDS / INTERPRETATIONS

The following revised and newly approved Standards of GRAP have been approved and issued by the Accounting Standards Board but only become effective in the future or have not been given an effective date by the Minister of Finance. The Municipality has not early-adopted any new Standards or revised Standards of GRAP but has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework.

Standard number	Standard name	Effective date (if applicable)
GRAP 34	Separate Financial Statements	No effective date
GRAP 35	Consolidated Financial Statements	No effective date
GRAP 36	Investments in Associates and Joint Ventures	No effective date
GRAP 37	Joint Arrangements	No effective date
GRAP 38	Disclosure of Interests in Other Entities	No effective date

GRAP 34 - Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. It is expected that adoption of this standard will not be significant.

GRAP 35 – Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is expected that adoption of this standard will not be significant.

GRAP 36 - Investments in Associates and Joint Ventures

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity has an investment in one or more other entities. It is expected that adoption of this standard will not be significant.

GRAP 37 - Joint Arrangements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity has an investment in one or more other entities. It is expected that adoption of this standard will not be significant.

GRAP 38 - Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

6. SIGNIFICANT JUDGEMENTS

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Management has made the following significant judgement:

Heritage Assets

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an asset is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an asset is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Revenue from Exchange transactions:

Revenue from the sale of electricity prepaid meter cards is recognised at point of sale.

Allowances for Credit losses

On Consumer debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

Other key judgements

Provisions and contingent liabilities

Management judgement is required when disclosing and measuring provisions and contingent liabilities. Provisions have been discounted where the effect of discounting is material. Refer to accounting policy Note 11.

Operating lease commitments – the Municipality as lessor

The Municipality has entered into commercial property leases on its investment property portfolio. The Municipality has determined that it retains all the significant risks and rewards of ownership of these properties and therefore has continued to recognise the investment properties.

Management's Going Concern Assessment:

Management considered the following matters relating to the Going Concern:

On 30 June 2018 the Council adopted the 2018/19 to 2020/21 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the on-going delivery of municipal services to residents reflected that the Budget was funded over the three-year period.

Management has thus prepared the Annual Financial Statements on the Going Concern basis.

7. SIGNIFICANT ESTIMATES AND ASSUMPTIONS

In the process of preparing the Municipality's Annual Financial Statements, management has made the following key estimates and assumptions:

Presentation of a comparison of budget and actual amounts

The Municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP24. The comparison of budget and actual amounts present separately for each level of legislative oversight.

Provision for Rehabilitation of Refuse Landfill Sites

The Economic Entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost to rehabilitate the landfill sites in the future. The cost factors, as determined, have been applied and projected at an inflation rate of 4.6% (2018: 4.6%) and discounted to the present value:

- a) For Arlington and Koedoeskloof landfill sites, at the average short term borrowing cost of 11.25% (2018: 11.25%).
- b) The determined cost to rehabilitate IBhayi landfill site represents the present value.

Provision for Rehabilitation of Swartkops River

The provision is in relation to the Economic Entity's obligation to address the environmental pollution of the Swartkops River. The provision is based on the estimated costs to carry out the rehabilitation work of the wetland beside the Swartkops River, which was present valued at a rate of 11.25% (2018: 11.25%). The discount rate of 11.25% represents the Economic Entity's average borrowing costs rate and is applied as a discount rate.

Pension and other post-employment benefits

The cost of defined benefit pension plans (ex gratia pensions), other post-employment medical benefits, and the present value of the pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. For key assumptions, refer to Note 47 of the Annual Financial Statements.

Provision for gratuity pensions

Employees that were employed prior to the introduction of the Port Elizabeth Municipal Pension Benefit Fund and who subsequently joined the fund are eligible to be paid a standard gratuity, provided they have at least 10 years of service when they retire.

Employees that were employed prior to the introduction of the Port Elizabeth Municipal Pension Benefit Fund and who chose not to join the fund are eligible to be paid an Enhanced Gratuity for the years of service that they were not a member of the fund.

If an Employee eligible for a Gratuity Pension dies in service, half of the Gratuity Pension (including the monetary enhancement) as calculated at date of death, is paid.

Property, plant and equipment including Investment Properties and Intangible Assets

The useful life of assets are based on management's estimation. Management consider the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain and thus residual values are determined to be nil for all assets.

Water inventory

The estimation of the water stock in the reservoirs are based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to accounting policy Note 17.

8. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The Housing Development Fund is included as one of the reserves within Accumulated Surplus.

9. ACCUMULATED FUNDS

The Municipality maintains various internal reserves in terms of specific requirements, which include:

- Capital Replacement Reserve (CRR): Internal reserve administered within the Accumulated Surplus for control purposes
- Capitalisation Reserve (CR): Internal reserve administered within the Accumulated Surplus for control purposes
- Donations and Public Contributions Reserve: Internal reserve administered within the Accumulated Surplus for control purposes
- Self-Insurance Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.
- Government Grant Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.
- Compensation for Occupational Injuries and Diseases (COID) Reserve

The Municipality has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases in terms of Section 84 of the COID Act, but is required to maintain a reserve of R10 million. This reserve is subject to annual review by the Commissioner.

The certificate of exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the Municipality deposit cash

and/or securities relating to COID with the Commissioner. The combined market values shall not be less than the capitalised value of the continuing liability of the Municipality as at 31 December of each year.

The continuing liability is that of pensions, with the capitalised value being determined based on an actuarial determination as prescribed by the Commissioner. A COID reserve has been established to be equal to or greater than the value of the continuing liability. The Commissioner determines the market value of the securities annually and the Municipality is required to meet any shortfall in the aggregate value of the securities as at 31 December.

Monthly pensions are funded by allocating funds out of the COID portion of Accumulated Surplus to general Accumulated Surplus (refer to note 2).

10. EMPLOYEE BENEFITS

Recognition and measurement

Short term employee benefits

Remuneration to employees is recognised as an expense in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs.

The costs of all short-term employee benefits, such as leave pay, are recognised in the period the employee renders the related service.

Short-term employee benefits are measured on an undiscounted basis.

Short term compensated absences

The expected cost of compensated absences is recognised as follows:

Accumulating compensated absence:

When employees render services that increase their entitlement to future compensated absences; and

Non-accumulating absences:

When absences occur.

Leave pay accrual

The liability for accumulating compensated absences is based on the total amount of leave days accumulated by employees at reporting date and on the total remuneration package of the employees.

Bonus incentive and performance related payments

The Municipality recognises the expected cost of performance bonus when, and only when, it has a present legal or constructive obligation to make such payments, as a result of past events and a reliable estimate of the obligation can be made.

A provision in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees is raised once the timing and amount of such provision can be reliably determined. The provision is based on the performance of each S57 employee against the performance scorecard set and agreed upon for each financial year. If on assessment of the respective S57 employees it is decided that a bonus will be paid out, the S57 employee is entitled to receive this bonus irrespective of whether they are still in the service of the Municipality, or not.

Post-employment benefits

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan, using the projected unit credit method. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

Recognition and measurement

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred.

The past service costs are recognised as an expense immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (further detail is available in Note 47), less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by long-term employee benefit funds or qualifying insurance policies. Plan assets are not available to the creditors of the Municipality nor can they be paid directly to the Municipality.

Fair value is based on market price information and in the case of quoted securities; it is the published bid price. It should be noted that there are currently no plan assets.

Medical Aid: Continued Members

The Municipality provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the Medical Aid Funds with which the Municipality is associated, a member, on retirement, is entitled to remain a continued member of such medical aid fund. Should the member opt to remain on the fund, the member is liable for the portion, as determined by Council from time to time, of the medical aid membership fee and the Municipality for the remaining portion.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The liability in respect of current pensioners is regarded as fully accrued and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation.

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

Gratuity Provision

A provision in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund is maintained. The gratuity is payable by Council to wage earners who joined the Municipality before 1988. The Council decided to make gratuity payments to these employees upon retirement. The amount payable is based on the individual employee wage rate and the number of years in service until the employee joined a pension fund. The provision is determined with reference to minimum wage rate applicable immediately prior to joining the pension fund multiplied by number of years' service and adjusted annually based on the average interest earned on investments.

Long service awards

Employees who have completed 25 years unbroken service are entitled to receive a once-off cash award not exceeding R2 500. The cash award is included in the employee's salary in the month of the service anniversary.

Defined contribution plans:

The Municipality has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Municipality has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Municipality but do it as a whole for all the Municipalities together.

Retirement benefits

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions, if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

11. PROVISIONS AND CONTINGENCIES

Provisions are recognised when the Municipality has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date (for example in the case of obligations for the rehabilitation of land). The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost.

If the effect of the time value of money is material, provisions are discounted using a rate that reflects the risk of the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that there will be an outflow of resources embodying economic benefits or service potential to settle the obligation, the provision is reversed.

Future events that may affect the amount required to settle an obligation are reflected in the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

With respect to litigation and claims against the Municipality, the Municipality's Legal Counsel assesses the list of claims against the Municipality on an annual basis. The Municipality recognises a provision for all claims/cases for which the outflow of economic resources is probable and the amount can be reliably estimated.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

12. FINANCIAL INSTRUMENTS

Initial Recognition

The Municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Municipality becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

Distinguishing liabilities and residual interests

A financial instrument or its component parts is classified on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.

Compound financial instruments

The Municipality evaluates the terms of a financial instrument to determine whether it contains both a liability and residual interest component. Such components are classified separately as financial liabilities or residual interests.

Initial Measurement of financial assets and financial liabilities

When a financial asset or financial liability is recognised initially, the Municipality measures it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans

The Municipality first assesses whether the substance of a concessionary loan meets the definition of a financial instrument. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

- a) A social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- b) Non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

After initial recognition, an entity measures concessionary loans in accordance with the subsequent measurement criteria set out for all financial instruments.

Subsequent Measurement of financial assets and financial liabilities

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

- a) Financial instruments at fair value
 - Instruments held for trading.
 - Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.

- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
- b) Financial instruments at amortised cost
 - Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the Municipality designates at fair value at initial recognition or are held for trading.
- c) Financial instruments at cost
 - Investments in residual interests that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Municipality assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

Impairment of financial assets

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

The Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the

amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition of financial assets:

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

- a) The contractual right to the cash flow from the financial asset expire, are settled or waived;
- b) The Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- c) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another party.

Derecognition of financial liabilities:

The Municipality derecognises a financial liability from its statement of financial position when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation:

Interest, losses and gains

Interest, losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit

Offsetting a financial asset and a financial liability

The Municipality does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right to set-off exists and the parties intend to settle on a net basis or to realise the asset and settle the liability simultaneously.

Policies relating to specific financial instruments

Investments at amortised cost

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost, using effective interest method.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

Investments at fair value

Investments, which represent investments in equity for which fair value can be measured reliably, are subsequently measured at fair value. The fair value is based on market values at valuation date.

Gains and losses in the fair value of such investments are recognised in the Statement of Financial Performance.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. Amounts that are receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the Council.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest method.

13. PROPERTY, PLANT AND EQUIPMENT

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, other than investment property, or for administrative purposes and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably.

Measurement at recognition

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an item of property, plant and equipment is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an item of property, plant and equipment is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment (other than land) are measured at cost less accumulated depreciation and impairment losses.

Subsequent to initial recognition, land is measured at cost and is not depreciated because it has an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset replaced and capitalises the new component.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful life of the component assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The component assets' residual values, useful lives and depreciation methods are reviewed at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in estimate in accordance with the standard of GRAP on accounting policies, changes in accounting estimates and errors.

The depreciation charge for each reporting period is recognised in surplus or deficit, unless it is included in the carrying amount of another asset.

The annual depreciation rates for the current and previous year are based on the following average asset useful lives:

Land & Buildings	Useful Life Range in Years
Buildings	15 - 50
Land	Indefinite Life
Infrastructure Assets	Useful Life Range in Years
Fencing, Roads, Sidewalks & Stormwater Networks	5 – 100
Beach Developments	30 – 50
Electricity Reticulation & Supply	10 – 80
Sewerage Mains & Purification Works	15 – 80
Waste Disposal Facilities	20 – 100
Water Supply & Reticulation	10 – 50
Dams & Treatment Works	25 – 100
Other Assets	Useful Life Range in Years
Bins & Containers	5 – 15
Air Monitoring, Emergency & Medical Equipment	5 – 20

Vehicles & Plant	4 – 30
Office Furniture & Fittings	3 – 20
Landfill Sites	50
Security Systems	5 – 15
Tip Sites	30
Computer Hardware	4 – 8

Community Assets	Useful Life Range in Years
Libraries	15 – 50
Fire Stations	15 – 50
Library Books	5 – 20
Cemeteries	15 – 50
Clinics	15 – 50
Community Centres	15 – 50
Public Conveniences	15 – 50
Swimming Pools	15 – 50
Recreational Facilities	15 – 50
Selling & Letting Schemes	15 – 50

Impairment:

Recognition and measurement of an impairment loss for an item of property, plant and equipment

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

The carrying amount of an asset is reduced to its recoverable amount if, and only if, its recoverable amount is less than its carrying amount.

The impairment loss is recognised immediately in surplus and deficit.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. Residual values are assumed to be zero, unless otherwise stated.

14. HERITAGE ASSETS

Initial recognition and measurement

Heritage assets are assets that have cultural, historical, environmental, natural, scientific or technological significance that are held indefinitely for the benefit of present and future generations.

Heritage assets are recognised when it is probable that future economic benefits or service potential associated with the item will flow to the Municipality and the cost or fair value of the item can be measured reliably.

When an asset, does not meet the initial recognition criteria of a heritage asset, the Municipality discloses the relevant and useful information about such assets in the notes to the financial statements.

Heritage assets are initially recognised at cost on acquisition date.

The cost is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an asset is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an asset is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Subsequent measurement

Subsequent to initial recognition, the Municipality uses the cost model to measure its heritage assets.

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

The table below reflects the class of heritage assets and the estimated useful life range in years:

Heritage Sites	Useful Life Range in Years
Memorials & Statues	Indefinite Life
Heritage Sites	Indefinite Life
Museums	Indefinite Life
Art Works	Indefinite Life
Collections of rare books and manuscripts	Indefinite Life

Impairment

The Municipality does not depreciate its heritage assets, but at each financial year end, it assesses whether there is an indication that the assets may be impaired. If such an indication exists, the Municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

Heritage assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

15. INTANGIBLE ASSETS

Initial recognition and measurement

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences and development costs. The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), its initial cost at the date of acquisition is measured at its fair value as the date of acquisition.

Intangible assets acquired through non-exchange transactions:

Internally generated intangible assets:

Research phase

The Municipality does not recognise any intangible asset arising from a research phase of an internal project. Expenditure on research phase of an internal project is recognised as an expense when incurred.

Development phase

An intangible asset arising from development phase is recognised if, and only if the municipality can demonstrate all of the following:

- a) The technical feasibility of completing the intangible asset so it will be available for use or resale;
- b) Its intention to complete the intangible asset and use it or sell it;
- c) Its ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits or service potential;
- e) The availability of technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Exchanges of assets

The cost of an intangible asset acquired in exchange for another is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairment losses.

The cost of an intangible asset is amortised over its useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method. Amortisation of an asset begins when it is available for use.

The annual amortisation rates are based on the following estimated average asset useful lives:

Intangible	Useful Life Range in Years
Computer Software	3 – 5
Website Development	3 – 5

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

16. INVESTMENT PROPERTY

Initial recognition and measurement

Investment property includes property (land or a building or part of a building or both land or buildings held by owner or by a lessee under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services or the sale of an asset in the ordinary course of operations.

Investment property is initially recognised as an asset when, and only when, it is probable that future economic benefits and or service potential will flow to the Municipality and the cost or fair value can be measured reliably.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property.

Where an investment property was acquired through a non-exchange transaction (i.e. where the Municipality acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use as follows:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
- (d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. If investment property becomes owner-occupied property, the Municipality accounts for such property in accordance with the policy stated under investment property up to the date of change

in use. The costs of day-to-day servicing of investment properties are recognised in the Statement of Financial Performance as incurred.

Subsequent measurement

Investment property is measured using the cost model. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation begins when the asset is available for use. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment Property	Useful Life Range in Years
Land	Indefinite Life
Buildings	15 - 50

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

Land is not depreciated.

Fair Value

The assumptions for determining the fair value of the investment property is set out in Note 12 of the Annual Financial Statements.

Derecognition

Investment property is derecognised when it is disposed of or when no future economic benefits or service potential are to be derived from the use of the asset. All gains or losses from the disposal of investment property are determined as the difference between the sales proceeds and the carrying value of the asset and are recognised in the Statement of Financial Performance.

17. INVENTORIES

Initial recognition and measurement

Inventories comprise assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes (other than VAT), transport costs and any other direct costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, water and finished goods (FG), are measured at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis

of determining cost is first-in, first-out (FIFO) method for all inventory categories except water. Water is measured on the weighted average method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

An impairment provision for the write down of inventory is maintained in lieu of obsolete inventory. The level of the impairment provision for obsolete inventory is the value equivalent to the value of inventory assessed as obsolete at financial year-end.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The Municipality purchases its water. The cost of water purchased and not yet sold as reflected in the statement of financial position comprises the purchase price and other direct costs attributable to the acquisition. The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

18. IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Recognition

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where any such indication exists, the Municipality estimates the recoverable service amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset.

The Municipality classifies the asset/identifiable group of assets as cash-generating if the key purpose of such asset/group of assets is to derive a commercial return from continuing use, and are independent of the cash inflows from other assets or groups of assets. The Municipality will classify all other assets that do not meet the definition of cash-generating assets/group of assets as non-cash generating assets.

Measurement

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets, the value in use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash generating asset, the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach: The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach: The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach: The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

Reversal of impairment losses

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The reversal of an impairment loss for an asset is recognised immediately in the Statement of Financial Performance.

19. REVENUE

19.1 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrues to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Recognition

The recognition criteria is usually applied separately to each transaction

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;

- (b) it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- (c) the stage of completion of the transaction at the reporting date can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- (a) the Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (b) the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Specific exchange-revenue sources

Service charges relating to electricity, water and sewerage are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read and the related revenue adjustment is recognised in the same period.

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at point of sale.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied monthly based on the costs of providing the refuse removal service.

Rental income arising from the use of investment properties, facilities and equipment is accounted for on a straight-line basis over the lease term on on-going leases.

Revenue from the issue of permits and licenses is recognised at point and time of issue.

Interest income is recognised in surplus or deficit on a time proportionate basis, using the effective interest method (i.e. based on the effective interest rate of the individual investments).

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated to the fund concerned; and

- Interest earned on unutilised conditional grants is allocated to the creditor (i.e. recognised as an obligation), if grant conditions indicate that interest is payable to the funder.

Measurement

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Municipality assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

19.2 Revenue from Non-Exchange Transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition of revenue

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Recognition of assets

An inflow of resources from a non-exchange transaction that meets the definition of an asset is recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the Municipality and the fair value of the asset can be measured reliably. The asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

Specific non-exchange-revenue sources

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines are recognised when it is probable that future economic benefits will flow to the Municipality, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue in the invoicing period, therefore an accrual is raised at the end of the financial year based on the average collection of fines throughout the year.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Municipality.

Fuel levy is recognised in revenue when the income is received.

Grants, transfers or donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of related conditions. Where the grant, transfer or donation has been received but the Municipality has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Measurement of revenue from non-exchange transactions

Revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets, recognised by the entity.

Fines

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality.

Bequests

Bequests are measured at the fair value of the resources received or receivable.

Gifts and donations

On initial recognition, gifts and donations are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession that holds a recognised and relevant professional qualification.

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met. Therefore the best estimate of the amount required to settle the present obligation at the reporting date will be recognised as a liability.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Municipality assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

Expenditure from Non-exchange Transactions

The accounting policy for expenditure arising from non-exchange transactions is similar to policy for non-exchange revenue.

Expenditure from non-exchange transactions is recognised when the resources have been transferred to the beneficiaries. A corresponding asset is raised to the extent that conditions attached to the expenditure have not been met. The asset is transferred to the Statement of Financial Performance once the conditions are met.

20. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established.

Borrowing costs incurred are recognised as an expense in the Statement of Financial Performance using the effective interest method.

21. LEASES

Leases in the financial statements of lessees

Operating leases

Recognition

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. Lease payments under an operating lease are recognised as an expense in the statement of financial performance, on a straight-line basis over the lease term. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be.

Measurement

The resulting asset and / or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Derecognition

The operating lease liability is derecognised when the Municipality's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the Municipality no longer anticipates economic benefits to flow from the asset.

Leases – Municipality as lessor

Operating leases

The Municipality presents assets subject to operating leases in its Statement of Financial Position according to the nature of the asset.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term. Initial direct costs incurred by the Municipality in negotiating and arranging an operating lease

are added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue.

The depreciation policy for depreciable leased assets is consistent with the Municipality's normal depreciation policy for similar assets, and depreciation is calculated in accordance with the Standards of GRAP on Property, Plant and Equipment and Intangible Assets.

Recognition

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, on a straight-line basis over the lease period.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Operating lease liabilities are derecognised when the Municipality's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the Municipality's right to the underlying cash flows expire or the Municipality no longer expects economic benefits to flow from the operating lease asset.

22. REPORTING FOREIGN CURRENCY TRANSACTIONS IN THE FUNCTIONAL CURRENCY

Initial recognition

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Reporting at subsequent reporting dates

At each reporting date:

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Recognition of exchange differences

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in surplus or deficit in the period in which they arise,

23. VALUE ADDED TAX (VAT) AND TAXATION

The Municipality accounts for Value Added Tax on the payments basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT refundable from or payable to, the taxation authority is disclosed on the face of the statement of financial position.

The Municipality has a tax exemption and therefore not liable for income tax.

24. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

25. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

26. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

27. RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, and is recognised when the recovery thereof from the responsible officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

28. TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL

Common Control

For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

The Municipality uses the acquisition method in accounting for transactions relating to transfer of functions, between entities not under common control.

Applying the acquisition method requires:

- a) Identifying the acquirer.
- b) Determining the acquisition date.

- c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
- d) Recognising the difference between (c) and the consideration transferred to the seller.

The acquisition date is the date on which the acquirer obtains control of the acquiree.

Municipality as the acquirer:

At acquisition date, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree shall be recognised if:

- a) The assets taken on and the liabilities assumed meets the definitions of an asset and liability as set out in the Framework for the Preparation and Presentation of Financial Statements.
- b) These assets and liabilities relate to the binding agreement between the parties to the transaction and may not relate to separate transactions.

Assets and liabilities not previously recognised by the acquiree will be recognised if these assets and liabilities now meet the recognition criteria (for example internal generated intangible assets not previously recognised).

The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

29. EVENTS AFTER THE REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- Those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Adjusting events after reporting date

The Municipality adjusts the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date

Non-adjusting events after the reporting date

The Municipality does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date. The Municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

30. RELATED PARTIES

The Municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the Municipality and one or more related parties, and those transactions were not within:

- Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- Terms and conditions within the normal operating parameters established by the Municipality's legal mandate, further details about those transactions are disclosed in the notes to the financial statements.

31. PRESENTATION OF BUDGET INFORMATION IN THE FINANCIAL STATEMENTS

Presentation of a comparison of budget and actual amounts

The Municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP24. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- (a) the approved and final budget amounts;
- (b) the actual amounts on a comparable basis; and
- (c) by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts.

Presentation and disclosure

The Municipality presents a comparison of budget and actual amounts as additional budget columns in the primary financial statements because the financial statements and the budget are prepared on a comparable basis.

Changes from approved to final budget

The Municipality presents an explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget or of other factors:

- (b) in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

Comparable basis

All comparisons of budget and actual amounts are presented on a comparable basis to the budget.

The Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the Municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Comparative information is not required.

32. COMMITMENTS

Items are classified as commitments when the Municipality has committed itself to future transactions that will normally result in an outflow of cash.

Disclosure is done to the extent that it has not already been recognised elsewhere in the financial statements.

Capital commitments are treated as follows:

- The aggregate amount of capital expenditure contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements; and
- If a commitment is for a period longer than a year.

Commitments are disclosed in the following circumstances:

- Unrecorded capital expenditure approved and contracted for before/at reporting date;
- Unrecorded capital expenditure approved but not yet contracted for at reporting date; and
- Unrecorded capital expenditure approved after reporting date.

33. GRANTS-IN-AID

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the Municipality does not:

- Receive any goods or services directly in return as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period in which the events giving rise to the transfer occurred.

34. IMPAIRMENT

Impairment of cash generating units:

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset.
- (e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- (f) A decision to halt the construction of the asset before it is complete or in a usable condition.

- (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Impairment of non-cash generating units:

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

Internal sources of information

- (c) Evidence is available of physical damage of an asset.
- (d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- (e) A decision to halt the construction of the asset before it is complete or in a usable condition.
- (f) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

35. CONSTRUCTION CONTRACTS

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of the contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable to be recovered. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date exceed capital grants received, the surplus is shown as amounts due from funders for contract work. For contracts where capital grants received exceed contract costs incurred to date, the surplus is shown as the amounts due to funders for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as unspent project funding received. Amounts billed for work performed but not yet paid by the funder are included in the statement of financial position under trade and other receivables.

Unutilised project funding is reflected on the Statement of Financial Position as a Current Liability - Unspent Project Funding. The cash received is invested until it is utilised.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY									
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019									
Restated 2018 R		Note	Actual 2019 R	Approved Original Budget 2019 R	Adjustments 2019 R	Approved Final Budget 2019 R	Variance Final Budget and Actual R	%	No.
NET ASSETS AND LIABILITIES									
Net Assets									
15,819,298,632	Total Accumulated Funds		17,289,106,942	15,269,923,380	372,523,625	15,642,447,005	(1,646,659,937)	-11%	1
3,686,553,095	Non-current Liabilities		3,783,207,479	3,721,780,403	108,488,842	3,830,269,245			
1,208,011,203	Long-term Liabilities	3	1,116,776,821	1,203,437,653	148,289,700	1,351,727,353	234,950,532	17%	2
2,089,611,527	Non-current Provisions - Employee Benefits	4.1	2,187,691,857	2,187,691,857	0	2,187,691,857	0	0%	
388,930,365	Non-current Provisions - Other	4.2	478,738,801	330,650,893	-39,800,858	290,850,035	(187,888,766)	-65%	3
2,813,871,892	Current Liabilities		2,804,882,338	2,611,342,615	184,853,306	2,796,195,921			
180,128,968	Current Provisions - Employee Benefits	5.1	202,253,435	246,367,928	0	246,367,928	44,114,493	18%	4
38,771,537	Current Provisions - Other	5.2	82,002	82,002	0	82,002	0	0%	
148,632,182	Consumer Deposits	6	153,380,769	139,220,777	10,000,000	149,220,777	(4,159,992)	-3%	
2,366,578,795	Trade and Other Payables	7	2,288,366,816	2,132,502,080	174,853,306	2,307,355,386	18,988,570	1%	
0	VAT	8	71,140,815	0	0	0	-71,140,815	0%	
79,760,410	Current Portion of Long-term Liabilities	3	89,658,501	93,169,828	0	93,169,828	3,511,327	4%	
22,319,723,619	Total Net Assets and Liabilities		23,877,196,759	21,603,046,398	665,865,773	22,268,912,171			
ASSETS									
17,430,449,187	Non-current Assets		18,266,583,677	17,110,806,904	371,410,057	17,482,216,961			
16,460,414,172	Property, Plant and Equipment (PPE)	9	17,375,470,029	16,569,571,824	331,490,988	16,901,062,812	(474,407,217)	-3%	
229,450,493	Heritage Assets	10	216,705,687	216,705,687	12,744,806	229,450,493	12,744,806	6%	
442,600,198	Intangible Assets	11	368,593,280	59,986,817	27,174,263	87,161,080	(281,432,200)	-323%	5
220,379,727	Investment Property	12	215,618,058	197,280,265	0	197,280,265	(18,337,793)	-9%	
50,395,448	Long-term Receivables - Exchange Transactions	13	60,508,659	67,262,311	-29,687,964	37,574,347	(22,934,312)	-61%	6
27,209,149	Long-term Receivables - Non-exchange Transactions	13	29,687,964	0	29,687,964	29,687,964	0	0%	
4,889,274,432	Current Assets		5,610,613,082	4,492,239,494	294,455,716	4,786,695,210			
162,275,532	Inventory	14	132,843,468	205,781,978	0	205,781,978	72,938,510	35%	7
1,318,332,433	Trade Receivables - Exchange Transactions	15	1,628,698,450	1,475,209,710	79,793,842	1,555,003,552	(73,694,898)	-5%	
380,294,122	Trade Receivables - Non-exchange Transactions	15	250,886,112	0	0	0	-250,886,112		
405,742,993	Other Receivables - Exchange Transactions	16	390,212,812	480,634,653	0	480,634,653	90,421,841	19%	8
42,935,069	VAT	8	0	0	0	0	0		
2,371,934,859	Call Deposits and Investments	17	3,009,413,994	2,127,414,924	214,661,874	2,342,076,798	(667,337,196)	-28%	9
2,867,194	Call Deposits and Investments - Other	18	3,198,229	3,198,229	0	3,198,229	0	0%	
204,892,230	Bank Balances and Cash	19	195,360,017	200,000,000	0	200,000,000	4,639,983	2%	
22,319,723,619	Total Assets		23,877,196,759	21,603,046,398	665,865,773	22,268,912,171			
Refer to Note 56 of the Financial Statements for explanation of variances									

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2019

Restated 2018 R			Actual 2019 R	Approved Original Budget 2019 R	Adjustments 2019 R	Approved Final Budget 2019 R	Variance between Final Budget and Actual R	%	No.
	REVENUE								
	Exchange revenue								
5,186,419,663	Service Charges	21.1	5,234,658,834	5,468,835,250	0	5,468,835,250	234,176,416	4%	
153,156,363	Interest earned - External Investments		206,374,035	104,591,640	(691,030)	103,900,610	(102,473,425)	-99%	1
144,507,859	Interest raised - Outstanding Debtors		142,208,489	129,078,231	0	129,078,231	(13,130,258)	-10%	2
14,453,000	Licences and Permits		20,662,183	28,033,850	0	28,033,850	7,371,667	26%	3
22,713,087	Rental of Facilities and Equipment		27,481,302	36,318,460	89,930	36,408,390	8,927,088	25%	4
2,774,279	Income for Agency Services		3,153,626	2,892,060	0	2,892,060	(261,566)	-9%	
138,462,278	Other Revenue	23	162,724,338	202,085,730	7,436,340	209,522,070	46,797,732	22%	5
0	Gain on disposal of Property Plant and Equipment		0	0	473,480	473,480	473,480	0%	
	Non-exchange revenue								
1,999,182,848	Property Rates	20	2,128,248,924	2,177,931,330	0	2,177,931,330	49,682,406	2%	
80,141,319	Interest raised - Outstanding Debtors		92,409,729	92,409,729	0	92,409,729	0	0%	
0	Interest - SARS		114,048						
230,424,419	Fines, Penalties and Forfeits	21.2	215,022,098	303,735,420	(14,963,890)	288,771,530	73,749,432	26%	6
2,936,509,121	Transfers and Subsidies	22	3,153,805,026	2,920,195,210	313,517,382	3,233,712,592	79,907,566	2%	
5,003,119	Licences and Permits		2,831		0	0	(2,831)	0%	
123,095	Dividends received		0	0	0	0	0	100%	7
10,913,870,450	Total Revenue		11,386,865,463	11,466,106,910	305,862,212	11,771,969,122	385,217,707		
	EXPENDITURE								
2,800,638,045	Employee Related Costs	24	3,086,045,285	3,241,609,620	15,612,370	3,257,221,990	171,176,705	5%	
71,264,771	Remuneration of Councillors	25	74,229,126	73,450,700	1,292,580	74,743,280	514,154	1%	
730,844,488	Debt Impairment - Receivables	26	630,223,038	366,620,730	9,901,330	376,522,060	(253,700,978)	-67%	8
141,837,351	Debt Impairment - Other	26	128,886,451	174,923,500	(9,901,330)	165,022,170	36,135,719	22%	9
144,137,540	Finance Charges	27	134,571,555	142,392,290	0	142,392,290	7,820,735	5%	
3,013,776,454	Bulk Purchases	28	3,210,346,442	3,181,932,490	22,843,990	3,204,776,480	(5,569,962)	0%	
89,467,077	Transfers and Subsidies	29	86,466,591	187,479,340	(4,928,380)	182,550,960	96,084,369	53%	10
1,083,358,950	Contracted Services	30.1	964,730,342	1,359,867,270	44,506,920	1,404,374,190	439,643,848	31%	11
425,812,334	Other Expenditure	30.2	453,117,529	656,478,250	36,766,100	693,244,350	240,126,821	35%	12
132,807,590	Other Materials		157,731,780	191,818,700	13,918,390	205,737,090	48,005,310	23%	13
636,107,209	Depreciation	31.1	882,886,052	816,904,988	(79,216,948)	737,688,040	(251,832,714)	-34%	14
(356,731,317)	Amortisation	31.3	90,814,045		0	0	(90,814,045)	0%	14
0	Impairment	35.7	15,820,657				(15,820,657)	0%	14
20,510	Loss on Disposal of Property Plant and Equipment	35.8	1,188,260	0	0	0	(1,188,260)	0%	
8,913,341,002	Total Expenditure		9,917,057,153	10,393,477,878	50,795,022	10,444,272,900	420,581,045		
2,000,529,448	Surplus for the year		1,469,808,310	1,072,629,032	255,067,190	1,327,696,222	(35,363,338)		
Refer to Note 53 of the Financial Statements for explanation of variances									
(Please note: Surplus for the year R1 399 080 393 less Transfers and Subsidies - Capital R1 397 578 556= True Profit/(Loss) for the year in the amount of R72 229 754)									

NELSON MANDELA BAY MUNICIPALITY	
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019	
	<u>Accumulated Surplus</u>
	R
Balance at 01 July 2017 as previously reported	13,864,286,861
Restatements (Refer note 40.3)	(45,517,678)
Restated Balance at 01 July 2017	13,818,769,183
Surplus for the year as previously reported	2,069,038,257
Decrease in Surplus (Refer note 40.1.1)	(68,508,808)
Restated Surplus for the year	2,000,529,449
Restated Balance at 30 June 2018	15,819,298,632
Balance at 01 July 2018	15,819,298,632
Surplus for the year	1,469,808,310
Balance at 30 June 2019	17,289,106,942

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

Restated 2018 R		Note	Actual 2019 R	Approved Original Budget 2019 R	Adjustments 2019 R	Approved Final Budget 2019 R	Variance between Final Budget and Actual R	%	No.
CASH FLOWS FROM OPERATING ACTIVITIES									
10,109,791,500	Cash receipts from ratepayers, government and other		10,855,128,356	10,949,455,629	306,652,920	11,256,108,549			
6,932,764,221	- Sale of goods and services, fines and taxes levied		7,338,441,866	7,574,668,799	7,523,572	7,582,192,371	243,750,505	3%	
3,023,747,821	- Grants		3,310,312,455	3,270,195,190	299,820,378	3,570,015,568	259,703,113	7%	
123,095	- Dividends received		0	0	0	0	0	100%	1
153,156,363	- Interest received		206,374,035	104,591,640	-691,030	103,900,610	(102,473,425)	-99%	2
(7,274,120,264)	Cash paid to suppliers and employees		(8,333,451,352)	(8,977,194,947)	(395,941,447)	(9,373,136,394)			
(2,593,000,165)	- Employee Costs		(2,893,558,774)	(2,893,558,774)	0	(2,893,558,774)	0	0%	
(4,534,385,468)	- Suppliers		(5,302,368,780)	(5,941,243,883)	(395,941,447)	(6,337,185,330)	(1,034,816,550)	16%	3
(146,734,631)	- Finance Cost	27	(137,523,798)	(142,392,290)	0	(142,392,290)	(4,868,492)	3%	
2,835,671,236	CASH GENERATED FROM OPERATIONS	32	2,521,677,004	1,972,260,682	-89,288,527	1,882,972,155			
CASH FLOWS FROM INVESTING ACTIVITIES									
(1,702,443,802)	Purchase of PPE	55.1	(1,793,292,074)	(1,676,776,846)	(315,054,419)	(1,991,831,265)	-198,539,191	10%	4
0	Proceeds on Disposal of PPE		0	0	0	0	0	0%	
(2,511,422)	Purchase of Intangible assets	55.1	(16,807,127)	0	0	0	16,807,127	100%	4
	Disposal of intangible Assets		0						
(33,500,000)	Purchase of Investment Property	55.1	(794,620)	0	0	0	794,620	100%	4
(5,478,362)	Purchase of Heritage Assets		(3,075,851)	0	0	0	3,075,851	100%	4
0	Increase in Other Non-Current Receivables		0	-3,202,967	3,202,967	0	0	0%	
(1,743,933,586)	NET CASH FLOW FROM INVESTING ACTIVITIES		(1,813,969,673)	(1,679,979,813)	(311,851,452)	(1,991,831,265)			
CASH FLOWS FROM FINANCING ACTIVITIES									
0	Increase in Consumer Deposits		0	7,880,421	2,120,000	10,000,421			
(86,407,312)	Repayment of Non-current Liabilities (external loan funding)	33	(79,760,410)	(83,305,638)	0	(83,305,638)	(3,545,228)	4%	
	Increase in Borrowings			148,289,700		148,289,700			
(86,407,312)	NET CASH FLOW FROM FINANCING ACTIVITIES		(79,760,410)	72,864,483	2,120,000	74,984,483			
1,005,330,338	NET CHANGE IN CASH AND CASH EQUIVALENTS		627,946,922	365,145,353	(399,019,978)	(33,874,626)			
1,571,496,751	Cash and cash equivalents at the beginning of the year		2,576,827,089	1,965,467,801	611,359,287	2,576,827,089	0	0%	
2,576,827,089	Cash and cash equivalents at the end of the year	34	3,204,774,011	2,330,613,154	212,339,309	2,542,952,463			

Refer to Note 56 of the Financial Statements for explanation of variances

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	Restated 2018
	R	R
1 RESERVES GOVERNED BY AN ACT: Note 1 and Note 2		
HOUSING REVOLVING FUND		
Housing Revolving Fund	0	109,731,779
The amount for this note has been included in the Total Accumulated Funds.		
<u>Housing Revolving Fund</u>		
Balance at the beginning of the year	109,731,779	109,731,779
Transfer to Accumulated Surplus	(109,731,779)	0
Balance at the end of the year	0	109,731,779

The purpose of the Housing Revolving Fund is to provide bridging financing for Provincial Housing Board approved housing developments. Contributions consist of cash received from the Provincial Housing Board.

2 COID RESERVE		
Balance at the beginning of the year	37,185,503	33,033,807
Premiums received - transfer from accumulated surplus	7,315,725	6,276,491
Expenditure funded during the year - transfer to accumulated s	(3,179,360)	(2,124,795)
Balance at the end of the year	41,321,868	37,185,503

The amount for this note has been included in the Total Accumulated Funds.

The COID Reserve is required in terms of Section 84 of the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) as the Nelson Mandela Bay Municipality (NMBM) has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
3. LONG-TERM LIABILITIES		
Financial Liabilities:		
Development Bank of Southern Africa (DBSA)	339,921,853	355,901,155
Rand Merchant Bank	381,960,644	397,658,841
Nedbank	464,178,769	515,213,923
Total External Loans	1,186,061,266	1,268,773,919
 Brookes Bequest	 20,374,056	 18,997,694
Total Long-term Liabilities	1,206,435,322	1,287,771,613
 Less : Current portion transferred to current liabilities	 89,658,501	 79,760,410
Development Bank of Southern Africa (DBSA)	17,801,889	15,512,299
Rand Merchant Bank	17,315,635	15,569,153
Nedbank	54,540,977	48,678,958
	1,116,776,821	1,208,011,203

The Financial liabilities are measured at amortised cost taking into account relevant interest rates.

In line with Chapter 6 of the MFMA, no loans are secured.

DBSA

A further loan of R420 000 000 was taken up during the 2008/09 financial year and is repayable over 20 years in 38 half yearly instalments of R27 651 367, by 30 September 2029, at a fixed interest rate of 11.62% per annum with a final payment of R27 651 367. The loan was used for various capital projects. A capital amount of R15 512 299 and interest of R39 790 434 was repaid during the financial year. (2018: Capital repaid R13 872 609 and Interest paid R41 430 124)

NEDBANK

The loan of R745 000 000 was taken up during the 2009/10 financial year and is repayable over 15 years in 30 half yearly instalments of R52 372 749, by 31 January 2025, at a fixed interest rate of 11.7% per annum. The loan was used for various capital projects. A capital amount of R48 678 958 and interest of R56 089 039 was repaid during the financial year. (2018: Capital repaid R43 446 985 and Interest paid R61 321 012)

RAND MERCHANT BANK

The loan of R470 000 000 was taken up during the 2010/11 financial year and is repayable over 20 years in 40 half yearly instalments of R27 779 027, by 31 May 2031, at a fixed interest rate of 10.24% per annum. The loan was used for various capital projects. A capital amount of R15 569 153 and interest of R39 988 901 was repaid during the financial year. (2018: Capital repaid R14 087 718 and Interest paid R41 470 336)

BROOKES BEQUEST

Brookes bequest represents a long-term creditor. The capital of the fund, may not be used until 100 years after the death of the last annuitant. The funds can only be utilised by the NMBM when the two remaining Trustees approve the donation of funds to the NMBM. The interest may be utilised for capital projects related to the development of Humewood. The fund bears interest at an average of 7.01% per annum.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
4.1 NON CURRENT PROVISIONS - EMPLOYEE BENEFITS		
Gratuity Benefit	10,596,000	10,210,000
Post Retirement Benefits	1,546,062,037	1,441,847,218
Long Service Awards and Long Service Bonus	631,033,820	637,554,309
Total Employee Benefit Obligation	2,187,691,857	2,089,611,527

Refer to Note 47 for the full reconciliation and disclosures.

Gratuity Benefit

This obligation is in respect of the long-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

Balance at beginning of year	10,210,000	10,181,000
Movement in Obligation	386,000	29,000
Balance at end of year	10,596,000	10,210,000

Post Retirement Benefits

The past service liability in respect of post retirement benefits relates to ill-health retirements and medical aid contributions, and ex-gratia pensions which have been actuarially assessed at R1 546 062 037.

Balance at beginning of year	1,441,847,218	1,341,835,835
Movement in Obligation	104,214,819	100,011,383
Balance at end of year	1,546,062,037	1,441,847,218

Long Service Awards and Long Service Bonus

This obligation is in respect of the long service award and long service bonus which the Municipality offers to its current employees and which become payable at certain pre-determined intervals.

Balance at beginning of year	637,554,309	637,227,493
Contributions to Obligation	(6,520,489)	326,816
Balance at end of year	631,033,820	637,554,309

4.2 NON-CURRENT PROVISIONS - OTHER

Rehabilitation of Landfill sites	407,057,209	313,248,967
Rehabilitation of Swartkops River	71,681,592	75,681,398
Total Non-current Provisions	478,738,801	388,930,365

Rehabilitation of landfill sites

In terms of the licensing conditions of the landfill refuse sites, Council will incur rehabilitation costs of R117,935,831 for the Arlington Landfill site, R118,223,156 for the Koedoeskloof Landfill site and R170,898,223 for the Ibhayi Landfill site determined at net present value to restore the sites at the end of their useful lives estimated to be in 2027 (Arlington) and 2020 (Koedoeskloof). Squatters are currently occupying the Ibhayi Landfill site that is already closed. Provision has been made for the rehabilitation of the landfill sites based on the net present value of cost. For Arlington and Koedoeskloof landfill sites, the cost factors as determined have been applied and projected at an inflation rate of 4.5%. The projected amounts are discounted to the present value at the average borrowing rate of 11.14%. The determined cost to rehabilitate Ibhayi landfill site represents the present value.

Balance at beginning of year	313,248,967	291,348,345
Contributions to Provision	93,808,242	21,900,622
Balance at end of year	407,057,209	313,248,967

Rehabilitation of Swartkops River

Balance at beginning of year	75,681,398	77,163,874
Contributions to Provision - unwinding of discount factor	(3,999,806)	(1,482,476)
Balance at end of year	71,681,592	75,681,398

The provision is in relation to the Municipality's obligation to address the environmental pollution of the Swartkops River.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
5 EMPLOYEE BENEFITS AND PROVISIONS		
5.1 CURRENT PROVISIONS - EMPLOYEE BENEFITS		
Gratuity Obligation	927,000	1,122,000
Post Retirement Benefits	87,950,176	78,467,176
Performance Bonus Liability	3,827,569	1,822,279
Long service awards and long service bonuses	109,548,690	98,717,513
Total Current Employee Benefit Obligation	202,253,435	180,128,968

Refer to Note 47 for the full reconciliation and disclosures.

Gratuity Obligation

This obligation is in respect of the short-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

Balance at beginning of year	1,122,000	5,632,000
Contributions to Obligation	1,549,658	(731,719)
Expenditure incurred	(1,744,658)	(3,778,281)
Balance at end of year	927,000	1,122,000

Post Retirement Benefits

The obligation is in respect of the short-term liabilities attributable to ill-health retirements, medical aid contributions and ex-gratia pensions.

Balance at beginning of year	78,467,176	65,614,068
Contributions to Obligation	80,020,056	79,609,070
Expenditure incurred	(70,537,056)	(66,755,962)
Balance at end of year	87,950,176	78,467,176

Performance bonus liability

This obligation is in respect of the short-term liability relating to performance bonuses payable to Section 57 employees, based on a maximum of 14% of their all-inclusive remuneration package paid as per regulation 32(2) of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006.

Balance at beginning of year	1,822,279	1,677,378
Movement in Obligation	2,005,290	144,901
Balance at end of year	3,827,569	1,822,279

Long service awards and long service bonuses

The obligation is in respect of long service awards and long service bonuses

Balance at beginning of year	98,717,513	88,957,224
Movement in Obligation	10,831,177	9,760,289
Balance at end of year	109,548,690	98,717,513

5.2 CURRENT PROVISIONS - OTHER

Provision for Litigation and Claims	82,002	38,771,537
Total Current Provisions	82,002	38,771,537

Provision for Litigation and Claims

The provision is in respect of probable claims against the NMBM, pending the outcome of court decisions - See note 45(b).

Balance at the beginning of the year	38,771,537	92,188,982
Contribution to the provision	82,002	14,011,309
Provision utilised/reversed	(38,771,537)	(67,428,754)
Balance at end of year	82,002	38,771,537

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
6 CONSUMER DEPOSITS		
Electricity, Water and Other	151,638,682	146,945,152
Interest	1,742,087	1,687,030
	153,380,769	148,632,182

Refer Restatement Note no. 40.3.6

Guarantees held in lieu of Electricity and Water Deposits
Consumer deposits bear interest and are only refunded once the consumers' accounts are closed.

15,465,278 **15,465,278**

7 TRADE AND OTHER PAYABLES

Payables and Accruals	1,554,130,092	1,700,988,050
Payments Received in Advance	100,028,753	137,367,579
Staff leave	268,683,432	272,541,344
Retentions	103,810,789	102,442,374
Transfers and Subsidies (See details below)	261,713,750	153,239,448
Total Creditors	2,288,366,816	2,366,578,795

Refer Restatement Notes no. 40.3.1

Financial liabilities:

Trade creditors are non-interest bearing and are normally settled on 30-day terms, except for retention amounts of R103 810 789, which could be settled within the next 12 months.

No creditors are secured.

TRANSFERS AND SUBSIDIES

7.1 Conditional Grants from other spheres of Government

Conditional Grants in terms of the Division of Revenue Act (DORA):

Public Transport Infrastructure Grant (See Note 22.7.1)	16,424,051	27,074,669
Public Transport Networks Operations Grant (See Note 22.7.2)	-	184,546
Integrated National Electrification Programme Grant (See Note 22.8)	-	5,704,926
Neighbourhood Partnership Development Grant (See Note 22.15)	-	4,325,066
Infrastructure Skills Development Grant (See Note 22.17)	-	3,646,465
Urban Settlement Grant (See Note 22.16)	12,081,712	-
Integrated City Development Grant(ICDG) (See Note 22.20)	-	-
Drought Relief Grant (See Note 22.21)	207,695,396	89,217,785

Other Grants:

PHB Subsidies (See Note 22.1)	1,200,000	1,874,751
Smart Grid initiative Grant (See Note 22.4)	711,836	711,836
Provincial Department of Human Settlements: Accreditation Grant (See Note 22.5)	1,973,952	1,973,952
EU Sector Policy Support Project (See Note 22.9)	1,744,599	1,744,599
Other Grants (See Note 22.11)	1,143,900	1,573,158
National Lotteries Grant (See Note 22.13)	1,305,131	1,477,861
CDC Walmer Intervention Funding Grant (See Note 22.14.1)	9,068,420	9,068,420
EPWP Incentive Grant (See Note 22.18)	1,091,282	-
Department of Public Service and Administration fund (See Note 22.19)	-	241,156
LGSETA Discretionary Learnership Funding (See Note 22.23)	6,400,690	3,547,477
Provincial Department Agency: Communication Grant (See Note 22.24)	872,781	872,781

Total Transfers and Subsidies

261,713,750 **153,239,448**

The unspent portion of transfers and subsidies represent cash as included in note 18 below.

8 VAT

VAT Receivable / (Net VAT payable)	(71,140,815)	42,935,069
------------------------------------	---------------------	-------------------

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

Refer Restatement Note no. 40.3.3

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9 PROPERTY, PLANT AND EQUIPMENT

	R	R	R
As at 30 June 2019			
	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	2,124,894,925	310,232,736	1,814,662,189
Infrastructure Assets	18,400,650,007	6,088,527,092	12,312,122,915
Community Assets	3,599,030,494	1,030,690,898	2,568,339,596
Other Assets	1,581,969,124	901,623,795	680,345,329
	25,706,544,550	8,331,074,521	17,375,470,029

No assets were pledged as security and there were no restrictions.

A detailed register of Property, plant and equipment is maintained and is available for inspection.

Refer to Note 48 for reconciliation.

As at 30 June 2018

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	2,067,301,622	274,383,069	1,792,918,553
Infrastructure Assets	16,933,264,975	5,461,695,870	11,471,569,105
Community Assets	3,473,508,913	931,599,240	2,541,909,673
Other Assets	1,441,497,818	787,480,977	654,016,841
	23,915,573,328	7,455,159,156	16,460,414,172

Refer Restatement Note no. 40.3.7

10 HERITAGE ASSETS

	R	R	R
As at 30 June 2019			
	Cost	Accumulated Impairment	Carrying Value
Heritage Assets	232,526,344	15,820,657	216,705,687
	232,526,344	15,820,657	216,705,687

Refer to Note 49 for reconciliation.

As at 30 June 2018

	Cost	Accumulated Impairment	Carrying Value
Heritage Assets	229,450,493	0	229,450,493
	229,450,493	0	229,450,493

11 INTANGIBLE ASSETS

As at 30 June 2019

	Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software	617,856,933	249,263,653	368,593,280
	617,856,933	249,263,653	368,593,280

No assets were pledged as security and there were no restrictions.

Refer to Note 50 for reconciliation.

As at 30 June 2018

	Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software	601,049,806	158,449,608	442,600,198
	601,049,806	158,449,608	442,600,198

12 INVESTMENT PROPERTY

As at 30 June 2019

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	290,642,147	75,024,089	215,618,058
	290,642,147	75,024,089	215,618,058

No assets were pledged as security and there were no restrictions.

Refer to Note 51 for reconciliation.

As at 30 June 2018

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	289,847,527	69,467,800	220,379,727
	289,847,527	69,467,800	220,379,727

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

12 INVESTMENT PROPERTY (Continued)

Description of Investment Property:	2019	Restated 2018
	R	R
Nelson Mandela Bay Logistics Park	102,300,000	102,300,000
Kings Beach	30,400,000	30,400,000
Springs Resort	2,141,000	2,141,000
Telkom Park	45,200,000	45,200,000
Mc Arthur Bath	12,290,000	12,290,000
Willows Resort	246,430,000	246,430,000
Beachview Resort	6,250,000	6,250,000
Van Stadens Resort	5,250,000	5,250,000
St Georges Park Resort and Wells estate	117,500,000	117,500,000
Motherwell Depot	15,010,000	15,010,000
Africa Timbers in Korsten	1,990,000	1,990,000
Mercado centre	22,830,000	22,830,000
Fresh Produce Market	5,500,000	5,500,000
Incinerator and Gas works	26,730,000	26,730,000
Something Good	4,200,000	4,200,000
Korsten Depot	1,600,000	1,600,000
Port Elizabeth RD Steeleedale Reinforcing	980,000	980,000
PE Central Shop	490,000	490,000
North End Workshop	66,000	66,000
Moselville Old Post Office	1,250,000	1,250,000
Market Value of Investment Property	648,407,000	648,407,000

Additional Disclosure:

The NMBM applies the Cost Model.

The Market Value was determined by professional valuers of the NMBM who are experts in this field as at 30 June 2019 and there were no changes:

The depreciated replacement cost method of valuation was applied in determining the valuation of the property. This method of valuation is usually applied to properties that do not often change hands in the open market. The depreciated replacement cost method of valuation is calculated by determining the replacement cost of the improvements, as at the date of the valuation, less a depreciation factor, which comprises physical deterioration, functional obsolescence and location deterioration. The value of land is determined by means of comparable sales of similar properties in the area. The two values are added together to arrive at the valuation of the property.

Properties subject to Operating Leases:

Rental revenue included in surplus for following Investment Properties:	2019	Restated 2018
	R	R
Beachview resort	240,000	240,000
Van Stadens Resort	240,000	240,000
Something Good	665,374	633,024
Direct Operating expenses that generated rental revenue	0	0
Direct Operating expenses that did not generate rental revenue	0	0

Rental revenue is included with Rental of Facilities and Equipment

13 LONG-TERM RECEIVABLES

Other Debtors	50,315	50,315
Consumer Debtors	90,146,308	77,554,282
Rates and General	29,637,649	27,158,834
Other Services	6,901,393	6,662,732
Electricity	12,303,712	10,491,916
Water	11,564,533	16,560,197
Refuse	7,072,449	6,508,922
Sewerage	22,666,572	10,171,681
Long-term Receivables	90,196,623	77,604,597
Long-term Receivables - Exchange Transactions	60,508,659	50,395,448
Long-term Receivables - Non-exchange Transactions	29,687,964	27,209,149
	90,196,623	77,604,597

No collateral is held for receivables.

In the event of defaults on arrangements, the consumers may enter into a fresh arrangement upon making certain down payments.

LONG-TERM RECEIVABLES - CONSUMER DEBTORS

Financial Assets - Receivables:

The consumer debtors are billed a gazetted interest rate between 10.25% and 10.5% per annum on overdue accounts.

Trade Receivables - Exchange Transactions

The current portion is disclosed in note 15 - Trade Receivables - Exchange Transactions

14 INVENTORY

Materials and Supplies	135,217,631	163,480,100
Work in Progress - Other	112,132,914	141,653,129
Finished Goods - Water Stock (refer to note 28 for cost of inventory purchased)	20,215	5,673
Finished Goods - Other	16,773,046	15,465,869
	6,291,456	6,355,429
Less: Provision for Obsolete Stock	(2,374,163)	(1,204,568)
	132,843,468	162,275,532

No inventory was pledged as security

Refer Restatement Note no. 40.3.8

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

15 Trade Receivables - Exchange Transactions

	R	R	R
As at 30 June 2019	Gross Balances	Impairment Allowance	Carrying Amount
Service Debtors	3,741,896,983	(2,129,195,532)	1,612,701,451
Electricity	1,455,738,806	(540,527,209)	915,211,597
Water	1,446,837,099	(984,422,716)	462,414,383
Refuse	329,969,696	(244,550,718)	85,418,978
Sanitation	509,351,382	(359,694,889)	149,656,493
House Rentals	44,216,385	(28,219,386)	15,996,999
Total	3,786,113,368	(2,157,414,918)	1,628,698,450

No consumer debtors were pledged as security.

In the event of defaults services are disconnected until such time that the outstanding debt has been paid or an arrangement entered into.

As at 30 June 2018	Gross Balances	Impairment Allowance	Carrying Amount
Service Debtors	3,069,852,592	(1,761,749,954)	1,308,102,638
Electricity	1,166,950,980	(503,360,394)	663,590,586
Water	1,227,068,053	(790,591,133)	436,476,920
Refuse	257,123,132	(183,470,006)	73,653,126
Sanitation	418,710,427	(284,328,421)	134,382,006
House Rentals	35,216,826	(24,987,031)	10,229,795
Total	3,105,069,418	(1,786,736,985)	1,318,332,433

Refer Restatement Note no. 40.3.4

	2019 R	Restated 2018 R
Electricity: Ageing		
Current (0-30 days)	773,272,176	517,068,318
31 - 60 Days	39,193,759	36,918,884
61 - 90 Days	19,555,099	17,055,127
Over 90 Days	623,717,772	595,908,651
Total	1,455,738,806	1,166,950,980

Water: Ageing		
Current (0-30 days)	188,819,324	195,860,794
31 - 60 Days	67,650,712	88,740,502
61 - 90 Days	59,427,724	81,578,678
Over 90 Days	1,130,939,339	860,888,079
Total	1,446,837,099	1,227,068,053

Refuse: Ageing		
Current (0-30 days)	31,399,754	32,684,077
31 - 60 Days	11,701,745	10,271,735
61 - 90 Days	10,025,878	7,232,766
Over 90 Days	276,842,319	206,934,554
Total	329,969,696	257,123,132

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	Restated 2018
15 Trade Receivables - Exchange Transactions (Continued)	R	R
Sanitation: Ageing		
Current (0-30 days)	56,601,915	56,158,260
31 - 60 Days	27,041,372	22,548,618
61 - 90 Days	21,129,973	21,477,248
Over 90 Days	404,578,122	318,526,301
Total	509,351,382	418,710,427

Housing Rentals: Ageing		
Current (0-30 days)	3,113,114	3,331,158
31 - 60 Days	1,219,842	1,500,875
61 - 90 Days	1,197,379	1,176,071
Over 90 Days	38,686,050	29,208,722
Total	44,216,385	35,216,826

Summary of Debtors by Customer Classification

	R	R	R
	<u>Residential</u>	<u>Industrial /</u>	<u>National and</u>
	<u>Consumers</u>	<u>Commercial</u>	<u>Provincial</u>
30 June 2019			<u>Government</u>
Current (0-30 days)	283,467,830	741,285,563	28,449,812
31 - 60 Days	91,072,181	50,954,342	4,780,900
61 - 90 Days	78,415,852	27,247,084	5,673,112
Over 90 Days	1,452,873,363	941,308,852	80,584,477
Gross Consumer Debtors by Customer classification	1,905,829,226	1,760,795,841	119,488,301
Gross Consumer Debtors			3,786,113,368
Less: Impairment allowance			(2,157,414,918)
Net Consumer Debtors for the year ended 30 June 2019			1,628,698,450

Summary of Debtors by Customer Classification

	R	R	R
	<u>Residential</u>	<u>Industrial /</u>	<u>National and</u>
	<u>Consumers</u>	<u>Commercial</u>	<u>Provincial</u>
30 June 2018			<u>Government</u>
Current (0-30 days)	119,073,707	656,378,157	29,647,670
31 - 60 Days	94,931,552	55,759,215	9,289,839
61 - 90 Days	91,879,076	34,175,786	2,465,021
Over 90 Days	957,261,083	963,023,888	91,184,424
Gross Consumer Debtors by Customer classification	1,263,145,418	1,709,337,046	132,586,954
Gross Consumer Debtors			3,105,069,418
Less: Impairment allowance			(1,786,736,985)
Net Consumer Debtors for the year ended 30 June 2018			1,318,332,433

	2019	Restated 2018
	R	R
Reconciliation of the Impairment Allowance		
Balance at beginning of year	1,786,736,985	1,294,359,881
Contributions to Impairment allowance	503,489,137	648,824,015
	2,290,226,122	1,943,183,896
Bad debts written off against the Impairment allowance	(132,811,204)	(156,446,911)
Balance at end of year	2,157,414,918	1,786,736,985

Financial Assets have been classified as loans and receivables.

The consumer debtors are billed at gazetted interest rate between 10.25% and 10.5% per annum on overdue accounts.

Consumer Debtors not past due nor impaired therefore no impairment allowance raised:

Neither past due nor impaired	1,628,698,450	1,318,332,433
--------------------------------------	----------------------	----------------------

Consumer Debtors for which an impairment allowance was raised:

Provision (based on the collection of outstanding debts and debtors handed over to attorneys)	2,157,414,918	1,786,736,985
---	----------------------	----------------------

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	Restated 2018
	R	R
15 Trade Receivables - Non-exchange Transactions		
Property Rates	1,110,059,615	1,130,994,681
Provision for Bad Debts - Property Rates	(859,173,503)	(750,700,559)
Refer Restatement Note no. 40.3.2	250,886,112	380,294,122
Property rates: Ageing		
Current (0-30 days)	29,913,228	166,804,794
31 - 60 Days	26,816,262	34,092,394
61 - 90 Days	24,021,453	21,992,190
Over 90 Days	1,029,308,672	908,105,303
Total	1,110,059,615	1,130,994,681
Reconciliation of the Impairment Allowance		
Balance at beginning of year	750,700,559	620,516,206
Contributions to Impairment allowance	137,235,251	160,954,356
	887,935,810	781,470,562
Bad debts written off against the Impairment allowance	(28,762,307)	(30,770,003)
Balance at end of year	859,173,503	750,700,559
16 Other Receivables - Exchange Transactions		
Accrued Income: Transfers and Subsidies - Housing	213,744,952	215,173,761
Accrued Income: Transfers and Subsidies - Public Health	17,112,961	16,853,948
Accrued Income: Transfers and Subsidies - Coega	37,276,701	37,232,013
Accrued Income: Transfers and Subsidies - MBDA	43,070,438	61,263,081
Accrued Income: Market	30,966,759	31,286,495
Accrued Income: Other	141,236,907	123,110,349
Prepayments and Advances	14,900,000	0
Operating Leases - Straight Lining	2,898,358	1,991,536
	501,207,076	486,911,183
Provision for Bad Debts - Housing	(81,168,190)	(81,168,190)
Provision for Bad Debts - Market	(29,826,074)	0
	(110,994,264)	(81,168,190)
Refer Restatement Note no. 40.3.2	390,212,812	405,742,993
Amounts due from Government and external debtors are normally settled within 30 days and included in Accrued Income: Other above are debit balances in creditors which are still under investigation to determine whether they should have been there or not and are being cleared and updated where necessary.		
17 CALL DEPOSITS AND INVESTMENTS		
DEPOSITS and INVESTMENTS		
ABSA Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 7.11% and 6.25% (2018: 7.21%) during the current audit period.	711,810,000	559,310,000
First National Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 7.03% (2018: 7.15%) during the current audit period.	711,500,000	556,000,000
Investec Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 6.25% (2018: 6.75 %) during the current audit period.	140,344,337	131,665,203
Nedbank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 7.20% and 6.10% (2018: 6.60% and 7.34%) during the current audit period.	712,000,000	566,500,000
Standard Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 7.33% (2018: 7.48%) during the current audit period.	733,500,000	558,200,000
Standard Bank Stanlib Investment Account - interest receivable on monthly basis at the average annual interest rate of 2019: 7.30% (2018: 7.79%) during the current audit period.	259,657	259,656
	3,009,413,994	2,371,934,859
18 CALL DEPOSITS AND INVESTMENTS - OTHER		
Sanlam Shares - Financial Instruments	3,198,229	2,867,194
	3,198,229	2,867,194
No Investments were pledged as security		
The Investments are committed as follows:	3,009,413,994	2,371,934,859
Transfers and Subsidies	261,713,750	153,239,448
Current Portion of Long-term Liabilities	89,658,501	79,760,410
COVID Reserve	41,321,868	37,185,503
Self Insurance Reserve	60,000,000	142,995,139
Capital Replacement Reserve	45,047,783	158,478,197
Housing Revolving Fund	0	109,731,779
	497,741,902	681,390,476
The balance is available for Trade and Other Payables	2,511,672,092	1,690,544,383
The Municipality's Investment Policy and Investment Regulations, require local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.		
The NMBM is the holder of 40 919 shares in Sanlam Ltd received or allotted for no cost, of which the market value is R3 198 229 (2018: R2 867 194) determined on the open market share price as at 30 June 2019. The shares were awarded to the NMBM as the beneficiary of an insurance endowment policy, which matured during October 1998.		
All deposits are invested in call accounts with all of the above banks as per the above-mentioned interest rate options. Short-term investment deposits form part of cash and cash equivalents for purposes of the cash flow statement.		
Short-term Investment Deposits amounting to R89 658 501 (2018: R79 760 410) are ring-fenced and attributable to repaying long-term loans.		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
19 BANK BALANCES AND CASH		
The NMBM operates various current accounts with ABSA. The details are as follows:		
BANK: ABSA		
ACCOUNT NUMBER: 4079534961		
BRANCH: Greenacres		
BRANCH CODE: 632005		
Cash Book balance at beginning of the year	204,892,230	226,774,020
Cash Book balance at end of the year	195,360,017	204,892,230
Bank Balance at beginning of the year	138,260,400	193,346,792
Bank Balance at end of the year	205,002,964	138,260,400
Which are disclosed in the Statement of Financial Position as follows:		
Bank balances and cash	195,360,017	204,892,230
Refer Restatement Note no. 40.3.5		
20 PROPERTY RATES		
<u>Actual</u>		
Residential	921,220,360	895,783,922
Commercial	976,314,241	862,767,677
State	154,167,598	148,952,852
Other	76,546,725	91,678,397
	2,128,248,924	1,999,182,848
Refer Restatement Note no. 40.1.8		
As per the Municipal Property Rates Act, the date of valuation was 1 July 2012, with the implementation date being 1 July 2013.		
The Municipality is in the process of a property valuation in line with the Municipal Property Rates Act and the results thereof has been implemented with effective of 01 July 2019.		
*Other includes Agricultural, Public Service Infrastructure and Vacant Properties. These amounts are reflected excluding VAT.		
<u>Valuations</u>	R'000	R'000
Residential	96,907,099	96,013,106
Commercial	45,918,312	45,569,594
State	8,513,357	8,661,448
Other	6,688,553	6,678,750
	158,027,321	156,922,898
21.1 SERVICE CHARGES		
Sale of Electricity	3,685,117,104	3,484,590,786
Sale of Water	850,693,871	1,074,104,967
Service delivery - sale of inventory	4,535,810,975	4,558,695,753
Refuse Removal	192,746,229	170,247,868
Sewerage and Sanitation charges	506,101,630	457,476,042
Service delivery - sale of services	698,847,859	627,723,910
	5,234,658,834	5,186,419,663
Refer Restatement Note no. 40.1.2		
21.2 FINES, PENALTIES AND FORFEITS		
Fines (Library and Traffic)	215,022,098	230,424,419
Included in Fines above are Traffic fines shown as		
Fines issued for the year	171,834,050	176,697,278
Impaired, based on collection rate	(128,886,451)	(141,837,351)
Net fines collected	42,947,599	34,859,927

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	Restated 2018
	R	R
22 TRANSFERS AND SUBSIDIES		
PHB Subsidies (See Note 22.1)	2,667,132	4,795,313
Equitable Share Allocation (See Note 22.2)	939,530,000	844,287,010
Finance Management Grant (See Note 22.3)	982,577	1,012,141
Provincial Government Grants: Library Services (See Note 22.6)	15,870,000	15,000,000
Public Transport Networks Operations Grant (See Note 22.7.2)	86,681,950	68,559,829
EU Sector Policy Support Project (See Note 22.9)	0	120,783
Health Subsidies (See Note 22.10)	259,013	942,534
Other Grants (See Note 22.11)	3,798,064	3,832,456
Government Grant Revenue (See Note 22.12)	1,205,860,794	1,133,831,817
National Lotteries Grant (See Note 22.13)	172,730	182,528
Urban Settlements Development Grant (See Note 22.16)	37,971,982	63,498,791
Infrastructure Skills Development Grant (See Note 22.17)	11,609,633	11,511,551
EPWP Incentive Grant (See Note 22.18)	5,592,646	5,097,649
Department of Public Service and Administration (See Note 22.19)	1,224,552	492,114
Integrated City Development Grant (See Note 22.20)	688,791	0
Department of Roads and Public Works Grant (See Note 22.22)	9,063,928	9,300,603
LGSETA Discretionary Learnership Funding (See Note 22.23)	2,760,747	4,846,628
Fuel levy Allocation (See Note 22.25)	623,566,000	545,217,656
Other Transfers (See Note 22.26)	174,604,228	171,501,066
Public Contributions (See Note 22.27)	23,775,239	52,478,652
Municipal Emergency Housing Grant (See Note 22.28)	7,125,020	0
	3,153,805,026	2,936,509,121

Refer Restatement Note no. 40.1.7

Total Grant Receipts	3,310,312,455	3,023,747,821
----------------------	---------------	---------------

22.1 PHB Subsidies

This Grant is received from Provincial Government and is used for the construction of low cost housing.

Balance at beginning of year	1,874,751	1,874,752
Current year receipts	3,421,189	9,682,619
Interest received	136,230	132,081
Debtor raised	211,664,416	213,093,224
Reversal of prior year accrual	(213,093,224)	(217,980,531)
Interest paid over to Provincial Treasury	(136,230)	(132,081)
Conditions met - Transferred to revenue	(2,667,132)	(4,795,313)
Conditions still to be met - transferred to liabilities	1,200,000	1,874,751

22.2 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Balance unspent at beginning of year	0	0
Current year receipts	939,530,000	844,287,010
Transferred to revenue	(939,530,000)	(844,287,010)
Conditions met	0	0

22.3 Finance Management Grant

This grant is used in the financial reform project under the guidance of National Treasury.

Balance unspent at beginning of year	0	0
Current year receipts	1,000,000	1,050,000
Conditions met - Transferred to Other Income - VAT portion	(17,423)	(37,859)
Conditions met - Transferred to revenue	(982,577)	(1,012,141)
Conditions met	0	0

22.4 Smart Grid Initiative

This Grant is used to develop innovative, interactive and improved technological solutions to deal with revenue enhancement.

Balance unspent at beginning of year	711,836	711,836
Current year receipts	9,884,259	8,000,000
Conditions met - Transferred to revenue - capital	(9,884,259)	(8,000,000)
Conditions still to be met - transferred to liabilities	711,836	711,836

22.5 Provincial Department of Human Settlements: Accreditation Grant

This Grant is used for capacity building of level 3 accreditation in the preparation of NMBM in the Human Settlements matters.

Balance unspent at beginning of year	1,973,952	1,973,952
Current year receipts	0	0
Conditions met - Transferred to revenue	0	0
Conditions still to be met - transferred to liabilities	1,973,952	1,973,952

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

22	TRANSFERS AND SUBSIDIES (Continued)	2019 R	Restated 2018 R
	22.6 Provincial Government Grants: Library Services		
	This grant is received from the Provincial Government and used to subsidise Libraries.		
	Balance at beginning of year	0	0
	Current year receipts	15,870,000	15,000,000
	Conditions met - Transferred to revenue	(15,870,000)	(15,000,000)
	Conditions met	0	0
	22.7.1 Public Transport Infrastructure Grant		
	This Grant is to provide for accelerated planning, construction and improvement of public and non-motorised transport infrastructure.		
	Balance unspent at beginning of year	27,074,670	2,351,664
	Transfer from Public Transport Networks Operations Grant	65,972,595	0
		93,047,265	2,351,664
	Current year receipts	123,065,000	204,973,000
	Conditions met - Transferred to revenue - capital	(172,613,544)	(180,249,994)
	Transfer to E-Share	(27,074,670)	0
	Conditions still to be met - transferred to liabilities	16,424,051	27,074,670
	22.7.2 Public Transport Networks Operations Grant		
	This grant is to provide supplementary operational funding to Municipalities in order to operationalise the IPTS project within NMBM.		
	Balance unspent at beginning of year	184,545	420,374
	Current year receipts	152,470,000	68,324,000
	Transfer to Public Transport Infrastructure Grant	(65,972,595)	0
	Conditions met - Transferred to revenue	(86,681,950)	(68,559,829)
	Conditions still to be met - transferred to liabilities	0	184,545
	22.8 Integrated National Electrification Programme Grant		
	This Grant is used to fund electricity connections and upon application also the upgrade of the Electricity infrastructure in order to install these electricity connections.		
	Balance unspent at beginning of year	5,704,926	0
	Transfer to E-Share	(5,704,926)	
	Current year receipts	19,503,000	30,000,000
	Conditions met - Transferred to revenue - capital	(16,959,140)	(21,909,349)
	Conditions met - Transferred to Other Income - VAT portion	(2,543,860)	(2,385,725)
	Conditions still to be met - transferred to liabilities	0	5,704,926
	22.9 EU Sector Policy Support Project		
	This Grant is received from the European Union to fund various authorised developmental projects within certain designated targeted areas of the NMBM (i.e Motherwell).		
	Balance unspent at beginning of year	1,744,599	1,865,382
	Current year receipts	0	0
	Conditions met - Transferred to revenue	0	(120,783)
	Conditions met - Transferred to revenue - capital	0	0
	Conditions still to be met - transferred to liabilities	1,744,599	1,744,599
	22.10 Health Subsidies		
	This grant is received from the Provincial Government and used in the Health function.		
	Balance unspent at beginning of year	0	0
	Debtor raised	259,013	942,534
	Conditions met - Transferred to revenue	(259,013)	(942,534)
	Conditions met	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

22 TRANSFERS AND SUBSIDIES (Continued)	2019 R	Restated 2018 R
22.11 Other Grants		
These are grants received by the NMBM for various purposes.		
Balance unspent at beginning of year	1,573,158	1,605,500
Current year receipts	3,961,521	3,962,614
Conditions met - Transferred to revenue - capital	0	0
Accruals raise / reversed		(162,500)
Transfer to Other Income	(592,715)	0
Conditions met - Transferred to revenue	(3,798,064)	(3,832,456)
Conditions still to be met - transferred to liabilities	1,143,900	1,573,158
22.12 Government Grant Revenue		
Relates to the Funding of Capital Projects financed by Government Grants which are disclosed under Government Grants and Subsidies.		
	1,205,860,794	1,133,831,817
22.13 National Lotteries Grant		
This grant is used to fund Art and Culture programmes		
Balance unspent at beginning of year	1,477,861	1,660,389
Current year receipts		0
Conditions met - Transferred to revenue	(172,730)	(182,528)
Conditions still to be met - transferred to liabilities	1,305,131	1,477,861
22.14.1 CDC Walmer Intervention Funding Grant		
This grant is used to speed up service delivery intervention in Walmer Gqebera township.		
Balance unspent at beginning of year	9,068,420	20,546,957
Current year receipts	0	0
Debtor raised	0	0
Conditions met - Transferred to revenue - Capital	0	(11,478,537)
Conditions still to be met - transferred to liabilities	9,068,420	9,068,420
22.15 Neighbourhood Partnership Development Grant		
This grant is used for the urban renewal of certain targeted / designated townships.		
Balance unspent at beginning of year	4,325,066	562,222
Transfer to E-share	(4,325,066)	(562,222)
Current year receipts	0	12,110,000
Debtor raised	0	0
Conditions met - Transferred to revenue - capital	0	(6,661,817)
Conditions met - Transferred to Other Income - VAT	0	(1,123,117)
Conditions met	0	4,325,066
22.16 Urban Settlements Development Grant		
This grant is used to improve urban land production to the benefit of poor households as well as improving spatial integration and densities.		
Balance unspent at beginning of year	0	0
Current year receipts	1,105,664,000	1,090,561,000
Conditions met - Transferred to revenue - capital	(912,499,151)	(892,345,994)
Conditions met - Transferred to Other Income - VAT portion	(143,111,155)	(134,716,215)
Conditions met - Transferred to revenue	(37,971,982)	(63,498,791)
Conditions still to be met - transferred to liabilities	12,081,712	0
22.17 Infrastructure Skills Development Grant		
This grant is used for skills development in certain targeted service delivery directorates.		
Balance unspent at beginning of year	3,646,465	4,720,444
Transfer to E-Share - Owing to NT	(3,646,465)	(4,720,444)
	0	0
Current year receipts	11,834,000	15,394,000
Conditions met - Transferred to revenue	(11,609,633)	(11,511,551)
Conditions met - Transferred to Other Income - VAT portion	(224,367)	(235,984)
Conditions met	0	3,646,465

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
22 TRANSFERS AND SUBSIDIES (Continued)		
22.18 EPWP Incentive Grant		
This grant is used to implement expanded public works programme.		
Balance unspent at beginning of year	0	290,649
Current year receipts	6,711,000	4,807,000
Conditions met - Transferred to revenue	(5,592,646)	(5,097,649)
Conditions met - Transferred to Other Income - VAT portion	(27,072)	0
Conditions still to be met - transferred to liabilities	1,091,282	0
22.19 Department of Public Service and Administration Grant		
This grant is used for the improvement of front -line public service delivery in South Africa.		
Balance unspent at beginning of year	241,156	0
Current year receipts	983,396	733,270
Conditions met - Transferred to revenue	(1,224,552)	(492,114)
Conditions met	0	241,156
22.20 Integrated City Development Grant		
This grant is used for the development of more inclusive, liveable, productive and sustainable urban built environments in the metropolitan municipalities.		
Balance unspent at beginning of year	0	0
Current year receipts	12,355,000	7,308,000
Conditions met - Transferred to revenue - capital	(10,054,687)	(6,418,983)
Conditions met - Transferred to Other Income - VAT portion	(1,611,522)	(889,017)
Conditions met - Transferred to revenue	(688,791)	0
Conditions still to be met - transferred to liabilities	0	0
22.21 Drought Relief Grant		
The grant is used for responding to the immediate communities needs with the aim to alleviate the immediate consequences of drought within the municipality.		
Balance unspent at beginning of year	89,217,785	0
Transfer to E-Share	(18,494,873)	0
Current year receipts	233,400,000	97,000,000
Conditions met - Transferred to revenue - capital	(83,850,014)	(6,767,143)
Conditions met - Transferred to revenue - VAT	(12,577,502)	(1,015,072)
Conditions still to be met - transferred to liabilities	207,695,396	89,217,785
22.22 Department of Roads and Public Works Grant		
This grant is used to fund the maintenance of Provincial roads in the Metropolitan area		
Balance unspent at beginning of year	0	0
Current year receipts	10,579,870	9,422,754
Conditions met - Transferred to revenue	(9,063,928)	(9,300,603)
Conditions met - Transferred to Other Income	(1,379,983)	(122,151)
Conditions met - Transferred to revenue - VAT	(135,959)	0
Conditions met	0	0
22.23 LGSETA Discretionary Learnership Funding		
This grant is used to facilitate access to skills development, education and training in the local government sector and community in general.		
Balance unspent at beginning of year	3,547,477	4,957,859
Current year receipts	5,613,960	3,436,246
Conditions met - Transferred to revenue	(2,760,747)	(4,846,628)
Conditions still to be met - transferred to liabilities	6,400,690	3,547,477
22.24 Provincial Department Agency: Communication Grant		
This grant is used for the roll out of public Wi-Fi to all Municipal Libraries, Customer Care centres and Traffic Licensing centres.		
Balance unspent at beginning of year	872,781	872,781
Current year receipts	0	0
Conditions met - Transferred to revenue	0	0
Conditions still to be met - transferred to liabilities	872,781	872,781

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	Restated 2018
22 TRANSFERS AND SUBSIDIES (Continued)		
22.25 Fuel Levy		
Balance unspent at beginning of year	0	0
Current year receipts	623,566,000	545,217,656
Transferred to revenue	(623,566,000)	(545,217,656)
Conditions met	0	0
22.26 Other Transfers		
Balance unspent at beginning of year	0	0
Current year receipts	172,638,404	171,501,067
Transferred to revenue	(172,638,404)	(171,501,067)
Conditions met	0	0
22.27 Public Contributions		
Balance unspent at beginning of year	0	0
Current year receipts	23,775,240	52,478,652
Transferred to revenue	(23,775,240)	(52,478,652)
Conditions met	0	0
22.28 Municipal Emergency Housing Grant		
This grant is used to provide funding to municipalities for provision of temporary shelter assistance to households affected by disasters		
Balance unspent at beginning of year	0	0
Current year receipts	7,125,020	0
Conditions met - Transferred to revenue	(7,125,020)	0
Conditions met	0	0
23 OTHER REVENUE	R	R
Interest, Dividend and Rent on Land	0	46,689
Operational Revenue: Administrative Handling Fees	1,753,416	8,438,477
Operational Revenue: Inspection Fees	4,830,670	4,652,103
Sales of Goods and Rendering of Services: Building Plan Approval	11,286,714	10,771,954
Sales of Goods and Rendering of Services: Academic Services	2,868,488	3,566,809
Sales of Goods and Rendering of Services: Advertisements	4,592,193	4,126,929
Sales of Goods and Rendering of Services: Cemetery and Burial	10,754,119	9,825,268
Sales of Goods and Rendering of Services: Entrance Fees	21,838,346	17,145,260
Sales of Goods and Rendering of Services: Transport Fees	17,006,740	854,254
Sales of Goods and Rendering of Services: Scrap, Waste & Other Goods:Treatment Effluent	28,701,103	25,347,277
Sales of Goods and Rendering of Services: Scrap, Waste & Other Goods:Recycling of Waste	12,964,683	12,722,442
Sales of Goods and Rendering of Services: Legal Fees	11,512,231	12,133,569
Sales of Goods and Rendering of Services: Other	13,957,188	13,904,170
Operational Revenue: Other	20,658,447	14,927,077
	162,724,338	138,462,278
Refer Restatement Note no. 40.1.5		
24 EMPLOYEE RELATED COSTS		
Employee related costs - Municipal Staff - Salaries and Wages	1,842,150,656	1,662,748,700
Employee related costs - Senior Management - Salaries and Wages	14,423,320	15,777,936
Employee related costs - Municipal Staff - Social Contributions	688,619,617	633,558,631
Employee related costs - Senior Management - Social Contributions	10,708	12,344
Employee related costs - Municipal Staff - Allowances	170,004,773	152,328,748
Housing benefits	12,284,494	11,664,573
Overtime payouts	222,779,329	154,724,523
Performance bonus: Municipal Staff	34,990,747	32,687,426
Performance bonus: Senior Management	2,005,290	144,901
Long-service Awards	98,776,351	136,990,263
	3,086,045,285	2,800,638,045
Refer Restatement Note no. 40.2.1		
Remuneration of the City Manager (Acting in place)		
Annual Remuneration	2,603,160	2,603,160
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
Total	2,603,160	2,603,160
Remuneration of the Chief Financial Officer (Acting in place)		
Annual Remuneration	0	1,124,214
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
Total	0	1,124,214
Remuneration of the Chief Operating Officer		
Annual Remuneration	2,018,784	1,915,584
Travel, Subsistence, UIF, Medical, Pension Funds, Other	108,000	108,000
Total	2,126,784	2,023,584
Remuneration of the Chief of Staff - Current		
Annual Remuneration	170,220	923,432
Travel, Subsistence, UIF, Medical, Pension Funds, Other	129,630	0
Total	299,850	923,432
Remuneration of the Chief of Staff - Previous		
Annual Remuneration	958,090	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
Total	958,090	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

24	EMPLOYEE RELATED COSTS (Continued)	2019	Restated 2018
		R	R
	Remuneration of the Chief of Police		
	Annual Remuneration	1,603,704	1,513,368
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	144,000	120,000
	Total	1,747,704	1,633,368
	Remuneration of Individual Executive Directors		
	Corporate Services (Acting in place)		
	Annual Remuneration	0	1,563,284
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	24,750
		0	1,588,034
	Economic Development, Tourism and Agriculture		
	Annual Remuneration	1,736,112	1,642,560
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	192,000	192,000
		1,928,112	1,834,560
	Infrastructure and Engineering		
	Annual Remuneration	1,928,112	1,834,560
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
		1,928,112	1,834,560
	Electricity (Vacant) (Acting in place)		
	Annual Remuneration	0	0
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
		0	0
	Safety and Security		
	Remuneration for 7 months	1,862,868	1,031,514
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	35,300	15,750
		1,898,168	1,047,264
	Human Settlements		
	Annual Remuneration	1,946,352	1,851,912
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
		1,946,352	1,851,912
	Sports, Recreation, Arts and Culture		
	Annual Remuneration	1,748,112	1,654,560
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	208,534	215,988
		1,956,646	1,870,548
	Public Health (Vacant) (Acting in place)		
	Annual Remuneration	0	0
	Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	0
		0	0
25	REMUNERATION OF COUNCILLORS	R	R
	Mayor's Remuneration	1,349,977	1,298,317
	Deputy Mayor's Remuneration	908,740	154,369
	Speaker's Remuneration	1,090,255	1,048,546
	Mayoral Committee members	13,306,944	12,520,293
	Other Councillors' Remuneration	52,254,668	50,929,972
	Telephone Allowances	4,884,142	4,883,674
	3G Allowance	434,400	429,600
		74,229,126	71,264,771

In-kind Benefits

The Executive Mayor, Deputy Executive Mayor, Speaker, Mayoral Committee Members and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties driven by a chauffeur employed by the Council.

In accordance with the Councillors' remuneration package; the structure is an all-inclusive package, with the exception of a Telephone Allowance and a 3G Allowance. The package is within the upper limits of the framework as envisaged in section 219 of the Constitution.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
26 DEBT IMPAIRMENT - RECEIVABLES		
Bad debts consists of the following:		
Bad debts expense	216,744,656	199,456,569
ATTP and Miscellaneous fees and charges - Funding	161,573,511	187,216,915
Miscellaneous - Non-funding	25,345,071	12,241,845
Other - Non-funding	29,826,074	(2,191)
Net Contribution to doubtful debts	413,478,382	531,387,919
Contribution to doubtful debts (inclusive of VAT) - Service Charges	503,489,138	648,824,015
Contribution to doubtful debts (inclusive of VAT) - Property Rates	137,235,251	160,954,356
Less: VAT portion	65,672,496	91,173,537
Contribution to doubtful debts (excluding VAT)	575,051,893	718,604,834
Less: Bad debts written off against the provision	161,573,511	187,216,915
	413,478,382	531,387,919
	630,223,038	730,844,488
DEBT IMPAIRMENT - OTHER		
Impairment - Traffic Fines	128,886,451	141,837,351
	128,886,451	141,837,351
The Impairment of Traffic Fines was based on the collection rate of fines. Refer Note 21.2 for more details.		
27 FINANCE CHARGES		
Interest on External Loans	132,916,132	142,508,812
Interest on Other	1,655,423	1,628,728
Finance Charges	134,571,555	144,137,540
Interest and Penalties	0	0
Total Finance Charges	134,571,555	144,137,540
Finance cost accrued / Prior year accrual reversals	(2,952,243)	(2,597,091)
Finance charges paid	137,523,798	146,734,631
Refer Restatement Note no. 40.2.2		
28 BULK PURCHASES		
Electricity	3,084,412,549	2,892,077,061
Water	125,933,893	121,699,393
	3,210,346,442	3,013,776,454
Refer Restatement Note no. 40.2.3		
29 TRANSFERS AND SUBSIDIES		
Grants in aid	22,720,352	6,673,569
Grants to Other Organisations	63,746,239	82,793,508
	86,466,591	89,467,077
Refer Restatement Note no. 40.2.4		
30 SIGNIFICANT ITEMS IN THE STATEMENT OF FINANCIAL PERFORMANCE		
30.1 CONTRACTED SERVICES		
Is made up as follows:		
Consultants and Professional Services:Business and Advisory	24,477,218	13,565,217
Consultants and Professional Services:Infrastructure and Planning:Town Planner	23,741,703	29,644,993
Consultants and Professional Services:Laboratory Services	138,443	95,282
Consultants and Professional Services:Legal Cost	62,271,993	61,951,919
Contractors:Building	3,487,925	31,879,017
Contractors:Other	19,184,692	58,129,333
Contractors:Maintenance of Buildings and Facilities	86,148,998	54,443,148
Contractors:Maintenance of Equipment	88,569,021	114,234,317
Contractors:Maintenance of Unspecified Assets	42,286,799	37,345,013
Contractors:Sewerage Services	44,484,984	41,764,495
Contractors:Management of Informal Settlements	9,185,976	5,772,543
Contractors:Safeguard and Security	779,653	855,644
Contractors:Transportation	34,597,623	67,455
Outsourced Services:Other	6,578,194	9,074,074
Outsourced Services:Alien Vegetation Control	1,526,283	1,492,101
Outsourced Services:Animal Care	595,104	13,272,045
Outsourced Services:Business and Advisory:Project Management	307,286,154	290,356,577
Outsourced Services:Clearing and Grass Cutting Services	25,199,401	27,598,414
Outsourced Services:Electrical	26,151,577	32,088,383
Outsourced Services:Hygiene Services	30,046,139	56,120,003
Outsourced Services:Illegal Dumping	7,373,926	7,729,699
Outsourced Services:Litter Picking and Street Cleaning	16,209,968	24,143,424
Outsourced Services:Meter Management	10,947,977	9,020,970
Outsourced Services:Refuse Removal	10,358,837	13,168,848
Outsourced Services:Security Services	67,950,414	132,693,061
Outsourced Services:Traffic Fines Management	15,015,624	13,364,824
Outsourced Services:Transport Services	135,716	3,488,151
	964,730,342	1,083,358,950
Refer Restatement Note no. 40.2.5		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
30 SIGNIFICANT ITEMS IN THE STATEMENT OF FINANCIAL PERFORMANCE		
30.2 OTHER EXPENDITURE		
Is made up as follows:		
Operating Leases: Various Assets	35,446,134	29,711,859
Operational Cost: Advertising, Publicity and Marketing	6,789,652	6,694,446
Operational Cost: Other	62,044,656	64,636,000
Operational Cost: External Computer Service	47,193,717	64,625,531
Operational Cost: Hire Charges	97,520,594	72,914,884
Operational Cost: Insurance Underwriting	10,634,487	11,735,407
Operational Cost: Intercompany/Parent-subsidiary Transactions	78,767,024	61,517,312
Operational Cost: Licences	7,528,089	8,614,081
Operational Cost: Commission: Prepaid Electricity	16,788,164	18,358,046
Operational Cost: Communication	37,330,318	40,101,927
Operational Cost: Registration Fees	5,395,073	2,995,613
Operational Cost: Skills Development Fund Levy	25,384,086	21,994,999
Operational Cost: Travel and Subsistence	6,051,812	5,641,736
Operational Cost: Uniform and Protective Clothing	9,999,060	10,928,351
Operational Cost: Workmen's Compensation Fund	6,244,663	5,342,142
	453,117,529	425,812,334
Refer Restatement Note no. 40.2.6		
31 DEPRECIATION AND AMORTISATION		
31.1 Depreciation - Property, Plant and Equipment	882,886,052	636,107,209
31.2 Amortisation	90,814,045	(356,731,317)
Refer Restatement Note no. 40.2.8		
32 CASH GENERATED FROM OPERATIONS		
Surplus for the year	1,469,808,310	2,000,529,448
Adjustment for:		
Interest accrued	(62,488,861)	(38,613,306)
Impairment of receivables	508,976,951	622,561,457
Write down to net realisable value	1,169,595	(662,515)
Depreciation	882,886,052	636,107,209
Amortisation	90,814,045	(356,731,317)
Finance cost accrued	34,196,583	37,148,825
Contribution to provisions / employee benefit obligation - non-current	187,888,766	120,785,345
Contribution to provisions / employee benefit obligation - current	(16,565,068)	(35,169,147)
Unrealised gain to Sanlam shares	(1,376,363)	(215,643)
Loss on Disposal of Property Plant and Equipment	1,188,260	20,510
Impairment of PPE / Heritage Assets/ Fines	144,707,108	141,837,351
Fines Income accrued	(166,715,221)	(139,692,931)
Operating Surplus before working capital changes	3,074,490,157	2,987,905,286
(Increase) / Decrease in Inventory	28,262,469	17,365,672
Increase in Trade Receivables	(660,108,884)	(593,489,172)
Increase in Other Receivables	14,295,893	(140,039,217)
Decrease / (Increase) in VAT	114,075,884	(70,825,681)
(Decrease) / Increase in Trade Payables	(36,746,489)	648,299,580
(Increase) / Decrease in Long-term Receivables	(12,592,026)	(13,545,232)
	2,521,677,004	2,835,671,236
33 MOVEMENT IN LONG-TERM LOANS (EXTERNAL)		
Loans repaid	(79,760,410)	(86,407,312)
	(79,760,410)	(86,407,312)
34 CASH AND CASH EQUIVALENTS		
Short-term Investment Deposits	3,009,413,994	2,371,934,859
Bank balances and cash	195,360,017	204,892,230
Total Cash and Cash Equivalents	3,204,774,011	2,576,827,089
35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
35.1 Contributions to organised local government		
Opening balance	0	0
Council subscriptions	14,100,000	12,635,000
Amount paid - current year	(14,100,000)	(12,635,000)
Balance unpaid (included in creditors)	0	0
35.2 Audit Fees		
Opening balance	196,905	80,378
Current year audit fee	22,412,517	19,102,534
Amount paid - current year	(22,037,293)	(18,905,629)
Amount paid - previous year	(196,905)	(80,378)
Balance unpaid (included in creditors)	375,224	196,905

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE		
35.3 VAT		
The Net effect of the VAT inputs and VAT output are shown in note 8. All VAT returns have been submitted by the due date throughout the year.		
35.4 PAYE and UIF		
Opening balance	33,753,626	30,017,608
Current year payroll deductions	485,603,145	405,984,812
Amount paid - current year	(445,226,669)	(372,231,186)
Amount paid - previous year	(33,753,626)	(30,017,608)
Balance unpaid (included in creditors)	40,376,476	33,753,626
35.5 PENSION AND MEDICAL DEDUCTIONS		
Opening balance	0	0
Current year payroll deductions and Council Contributions	754,343,760	675,807,184
Amount paid - current year	(754,343,760)	(675,807,184)
Balance unpaid (included in creditors)	0	0
35.6 SKILLS DEVELOPMENT LEVY		
Opening balance	1,879,401	1,687,189
Current year payroll deductions	25,370,698	21,994,999
Amount paid - current year	(23,245,579)	(20,115,598)
Amount paid - previous year	(1,879,401)	(1,687,189)
Balance unpaid (included in creditors)	2,125,119	1,879,401
OTHER ADDITIONAL DISCLOSURES:		
35.7 IMPAIRMENT		
Impairment	15,820,657	0
The Impairment relates mainly to heritage assets.		
35.8 LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
Loss on disposal of property, plant and equipment	1,188,260	20,510
The disposal relates to various property, plant and equipment.		
Relates to the disposal of equipment and motor vehicles which are past their useful lives.		
35.9 WATER LOSSES		
The NMBM suffered water losses of 44,220 megalitres (43.9%) amounting to R169.9 million (2018: 43,834 megalitres (43.9%) amounting to R162.9 million) during the year. The value of the water losses have been based on cost for both years. Various water demand management interventions are being implemented to curb water losses.		
The 43.9% of water losses are made up of unbilled authorised consumption(2.9%), apparent (commercial) losses (7%) and real (physical) losses (34%).		
Apparent losses include unauthorised consumption from theft or illegal use, plus all technical and administrative inaccuracies associated with customer metering.		
35.10 ELECTRICITY LOSSES		
The NMBM suffered electricity losses of 14.34% amounting to total accumulative losses of R 371.0 million (2018: 13.95% amounting to R 339.5 million). Various electricity management interventions are being implemented to curb these losses are being implemented.		
The Electricity losses as defined above are separated between technical (6%), Public Lighting (1.5%) and non-technical losses (5%). Technical losses are inherent losses in a distribution system and these includes copper losses, Iron losses and heat losses due to current flow. Public lighting includes traffic signals, Highmast and Streetlights. Non-Technical Losses can be attributed to theft that is illegal connections, meter tampering and non billed revenue due to faulty meters.		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

36.1 Councillors' arrear consumer accounts

Councillors had arrear accounts outstanding for more than 90 days as at:	R <u>Arrangements</u>	R <u>Outstanding more than 90 days</u>
30 June 2019		
Councillor TP Adams		23
Councillor ME Bobani		11,309
Councillor KK Boqwana		4
Councillor V Dyele	20,335	
Councillor FVN Greyling		17
Councillor AD Isaacs		23
Councillor RC Kayser		36,159
Councillor AW Lungisa		1
Councillor GG Miggels		17
Councillor M Mngcokoca	7,296	
Councillor L Mrara	-	616
Councillor SS Plaatjies	823	
Councillor LP Qukubana	431	
Councillor NE Sikweyiya	3,602	
Councillor PB Vani		13
Councillor MM Zinto	4,765	
	<u>37,252</u>	<u>48,182</u>
Councillors had arrear accounts outstanding for more than 90 days as at:	<u>Arrangements</u>	<u>Outstanding more than 90</u>
30 June 2018		
Councillor KK Boqwana		4
Councillor V Dyele	30,898	
Councillor AD Isaacs		36
Councillor RC Kayser		40,377
Councillor AW Lungisa		1
Councillor VM Manyati	4,440	
Councillor GG Miggels		19
Councillor M Mngcokoca	16,765	
Councillor L Mrara	3,694	
Councillor PS Ndoni	7,396	
Councillor SS Plaatjies	10,474	
Councillor LP Qukubana	1,466	
Councillor NE Sikweyiya	14,408	
Councillor L Suka		42,219
Councillor PB Vani		19
Councillor MM Zinto	11,698	
	<u>101,239</u>	<u>82,675</u>

Councillors' consumer accounts outstanding for more than 30 days at a particular month-end are deducted from the Councillors' remuneration for the following month.

36.2 List of Entities and related transactions

	2019 R	Restated 2018 R
1 Solely-controlled entities		
The following entity is solely controlled by the NMBM and have received the following grants:		
Mandela Bay Development Agency (excluding VAT)	<u>98,001,225</u>	<u>86,969,510</u>

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (C		
36.2 List of Entities and related transactions (Continued)		
2 Section 57 Employees (See note 24)		
3 Other Organisations		
The Organisations have received the following grants / payments:		
1. Uitenhage Despatch Development Initiative	0	970,765
2. Nelson Mandela Bay Tourism	7,275,629	13,925,050
3. Surf lifesaving Club	209,360	204,000
Grants / payments to Other Organisations	7,484,989	15,099,815

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

36.3 Suppliers in which close family members of employees, councillors/ directors or Mayor have interest:

Family of employees who have interest in a government suppliers:	56,704,780	56,651,499
--	------------	------------

Although a related party relationship does exist as awards were made to suppliers in which close family members of employees have an interest, these transactions were in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 45.

5,163,573 2,984,908

Although a related party relationship does exist, contracts were awarded to certain councillors and officials in which they have an interest. These transactions were made in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 44.

10,927,719 19,021,962

36.4 Supply Chain Management Policy

The Municipal Manager has the power to authorise deviations from the normal Procurement Process. The deviations for the 2018/19 financial year are detailed as follows in terms of section 39 (1) (a) of the Supply Chain Management Policy:

	2019 Payments made R	Restated 2018 Payments made R
Deviations: Supply Chain Management Policy		
(i) In an emergency;	184,891	0
(ii) If such goods or services are produced or available from a single provider only;	46,603,567	22,062,733
(iii) For the acquisition of special works of art, artistic services or historical objects where specifications are difficult to compile;	0	0
(iv) Acquisition of animals for zoos and/or nature and game reserves;	0	0
(v) In any other exceptional cases where all possible options have been explored, and it is still impractical or impossible to follow the official procurement processes	0	0
39 (1) (b) - Ratify any minor breaches of the procurement processes.	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
37 CAPITAL COMMITMENTS		
Approved and contracted for	537,111,297	433,444,590
Land and Buildings	6,111,957	11,441,040
Infrastructure	500,186,152	398,805,826
Community	14,504,777	7,031,126
Intangible	16,308,411	16,166,598
Approved but not yet contracted for	101,342,002	69,850,763
Infrastructure	99,524,880	68,049,442
Community	1,750,882	1,735,657
Intangible	66,240	65,664
Total	638,453,299	503,295,353
The balance of the tender was adjusted to 15% inclusive of VAT in order to take into account the change in VAT rate from 14% to 15% effective from 1 April 2018.		
This expenditure will be financed from:		
Fuel Levy	78,886,152	67,540,463
Urban Settlements Development Grant (USDG)	458,494,155	412,659,096
Service Charges - Water Revenue	0	12,412,934
Neighbourhood Development Partnership Grant	2,478,866	2,155,536
Integrated Public Transport Grant	83,965,921	8,527,324
Capital Replacement Reserve	1,001,870	0
Municipal Disaster Grant - Emergency Drought Relief	13,626,335	0
Total	638,453,299	503,295,353
38 UTILISATION OF LONG-TERM LIABILITIES		
RECONCILIATION		
Long-term liabilities (See Note 3)	1,186,061,266	1,268,773,919
Used to Finance property, plant and equipment - at cost	1,186,061,266	1,268,773,919
Sub-total	0	0
Cash set aside for the repayment of long-term liabilities (See Note 3) - This is only the capital portion of the loan.	89,658,501	79,760,410
39 FINANCIAL RISK MANAGEMENT		

There have been no significant changes in the risks below from the prior year to current. The risks have remained the same.

Interest rate risk

The NMBM is not exposed to interest rate risk on its financial liabilities. All of the NMBM's interest-bearing external loan liabilities, as detailed in Note 3 are fixed interest loans. No interest rate swap agreements have been entered into. The NMBM invests its surplus funds in fixed interest rate deposits with banks for fixed terms not exceeding one year.

Liquidity risk

The liquidity risk is the risk that the NMBM is not able to settle its obligations. The NMBM manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. The NMBM has secured standby credit facilities in the form of an overdraft facility with its banker in order to cater for any unexpected temporary shortfall in operating funds. The maximum exposure to liquidity risk is the trade creditors and long term borrowings. Consumer deposits have a low exposure to liquidity risk.

The following table details the NMBM's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the NMBM can be required to pay. The table includes both estimated interest and principal cash flows. A sensitivity analysis was not considered to be necessary.

Trade payables		
1-3 months	2,184,556,027	2,264,136,421
> 3 months	103,810,789	102,442,374
	2,288,366,816	2,366,578,795
Long term borrowings		
< 12 months	89,658,501	79,760,410
> 12 months	1,116,776,821	1,208,011,203

Credit risk

The NMBM manages credit risk in its borrowing and investing activities by dealing with only A-rated financial institutions, and by spreading its exposure over a range of such institutions in accordance with its approved Cash Management and Investments Policy. Credit risk relating to consumer debtors is managed in accordance with NMBM's credit control and debt collection policy. The NMBM's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in Note 15 to the financial statements. The maximum exposure to credit risk is the consumer debtors, which may reduce as a result of non-payment by debtors.

Refer to note 52 for table.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

39 FINANCIAL RISK MANAGEMENT (Continued)

Fair value interest risk

The NMBM is exposed to fair value interest rate risk on its external loan liabilities, which are all fixed interest rates. The fair value of financial assets and liabilities are disclosed and compared with their carrying values. See note 52 for fair values of all financial liabilities. SANLAM shares is the only financial instrument and has a very low risk exposure and have been disclosed at the Market value of the share as at 30 June.

Currency risk

There were no currency risk exposure in the current and prior year.

40 RESTATED PRIOR YEAR COMPARATIVES

Restated 2018
R

Prior Period Adjustments:

Net effect of changes - see details below

(68,508,808)

Net effect on surplus

(68,508,808)

Statement of Financial Performance

40.1.1 Surplus for the year

Balance as per audited financial statements (as previously reported)

2,069,038,256

Net effect on surplus

(68,508,808)

Service Charges (Refer 40.1.2)
Interest raised - Outstanding Debtors (Refer 40.1.3)
Rental of Facilities and Equipment (Refer 40.1.4)
Other Revenue (Refer 40.1.5)
Fines, Penalties and Forfeits (Refer 40.1.6)
Transfers and Subsidies (Revenue - Refer 40.1.7)
Property Rates (Refer 40.1.8)

3,831,669
15,229
(183)
14,476,972
17,353,145
120,783
(8,422,622)

Employee Related Costs (Refer 40.2.1)
Finance Charges (Refer 40.2.2)
Bulk Purchases (Refer 40.2.3)
Transfers and Subsidies (Expenditure - Refer 40.2.4)
Contracted Services (Refer 40.2.5)
Other Expenditure (Refer 40.2.6)
Other Materials (Refer 40.2.7)
Depreciation (Refer 40.2.8)

(18,488,140)
87
766,480
(5,542,211)
(59,036,334)
(12,500,006)
(1,082,182)
(1,495)

Restated surplus for 2017/18

2,000,529,448

40.1.2 Service Charges

Income as per Audited financial statements (as previously reported)

5,182,587,994

Transfer from Trade and Other Payables
Transfer from Trade Receivables
Transfer from Other Receivables

(17,274)
1,924,618
1,924,325

5,186,419,663

Service charges in the amount of R3 831 669, which have not been previously accrued for.

40.1.3 Interest raised - Outstanding Debtors

Income as per Audited financial statements (as previously reported)

224,633,949

Transfer from Trade and Other Payables

15,229

224,649,178

Interest in the amount of R15 229 was previously not recognised.

40.1.4 Rental of Facilities and Equipment

Income as per Audited financial statements (as previously reported)

22,472,315

Transfer from Trade and Other Payables
Transfer from Other Receivables

(183)
240,955

22,713,087

Rentals in the amount of R240 772, which have been previously incorrectly accrued for.

40.1.5 Other Revenue

Income as per Audited financial statements (as previously reported)

124,226,261

Transfer from Other Receivables

14,236,017

138,462,278

Other Revenue in the amount of R14 236 017, which have not been previously accrued for.

40.1.6 Fines, Penalties and Forfeits

Income as per Audited financial statements (as previously reported)

213,071,274

Transfer from Trade and Other Payables
Transfer from Other Receivables

16,308,616
1,044,529

230,424,419

Retentions in the amount of R17 353 145, have been transferred to Revenue as no obligation exists.

40.1.7 Transfers and Subsidies

Income as per Audited financial statements (as previously reported)

2,936,388,338

Transfer from Trade and Other Payables

120,783

2,936,509,121

Funding in the amount of R120 783, which have not been previously accrued for.

40.1.8 Property Rates

Income as per Audited financial statements (as previously reported)

2,007,605,470

Transfer from Other Receivables

(8,422,622)

1,999,182,848

Rates adjustment, which have not been previously accrued for.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)

Restated 2018
R

40.2.1 Employee Related Costs

Expense as per Audited financial statements (as previously reported)

Transfer from Trade and Other Payables	2,782,149,905
Transfer from Trade and Other Payables	18,293,573
Transfer from Trade and Other Payables	296,605
Transfer to Other Receivables	(102,038)
	2,800,638,045

Expenses in the amount of R194 567, which have not been previously accrued for.

Leave provision in the amount of R18 293 573, which have now been corrected.

40.2.2 Finance Charges

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	144,137,627
	(87)
	144,137,540

Expenses in the amount of R87, which have now been corrected.

40.2.3 Bulk Purchases

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	3,014,542,934
	(766,480)
	3,013,776,454

Expenses in the amount of R766 480, which have now been corrected.

40.2.4 Transfers and Subsidies (Expense)

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	83,924,866
	5,542,211
	89,467,077

Expenses in the amount of R5 542 211 which have not been previously accrued for.

40.2.5 Contracted Services

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	1,024,322,616
Transfer to Trade and Other Payables	41,675,387
Transfer to Other Receivables	(4,725)
Transfer to Inventory	17,365,672
	1,083,358,950

Expenses in the amount of R59 036 334 which have not been previously accrued for.

40.2.6 Other Expenditure

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	413,312,328
	12,500,006
	425,812,334

Expenses in the amount of R12 500 006 which have not been previously accrued for.

40.2.7 Other Materials

Expense as per Audited financial statements (as previously reported)

Transfer to Trade and Other Payables	131,725,408
	1,082,182
	132,807,590

Expenses in the amount of R1 082 182 which have not been previously accrued for.

40.2.8 Depreciation

Expense as per Audited financial statements (as previously reported) (PPE)

Transfer to Property, Plant and Equipment	636,105,714
	1,495
	636,107,209

Depreciation in the amount of R1 495, have now been corrected.

Statement of Financial Position

40.3 Total Accumulated Funds

Closing Balance as per audited financial statements (as previously reported)

Increase in Surplus (Refer to Note 40.1.1)	15,933,325,118
	(68,508,808)

	(45,517,678)
Transfer to Trade and Other Payables (leave pay)	(38,994,511)
Transfer to VAT	(2,824,560)
Transfer to Trade and Other Payables (accruals)	(7,872,530)
Transfer to Other Receivables	7,258,724
Transfer to Other Receivables	(3,000,309)
Transfer to Trade and Other Payables	(84,492)

Restated Closing Balance

15,819,298,632

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Restated 2018 R
40.3.1 Trade and Other Payables	
Balance as per Audited financial statements (as previously reported)	2,265,936,004
Transfer from Service Charges	17,274
Transfer from Interest raised - Outstanding Debtors	(15,229)
Transfer from Rentals of Facilities and Equipment	183
Transfer from Fines, Penalties and Forfeits	(16,308,616)
Transfer from Transfers and Subsidies	(120,783)
Transfer from Employee Related Costs	18,590,178
Transfer from Finance Charges	(87)
Transfer from Bulk Purchases	(766,480)
Transfer from Transfers and Subsidies	5,542,211
Transfer from Contracted Services	41,675,387
Transfer from Other Expenditure	12,500,006
Transfer from Other Materials	1,082,182
Transfer to Other Receivables	(22,872,080)
Transfer from Consumer Deposits	4,620
Transfer from Property Plant and Equipment	1,306,464
Transfer to VAT	13,056,028
Transfer to Accumulated Surplus	46,951,533
	<u>2,366,578,795</u>
Expenses in the amount of R100 642 791 (net movement), Relates to various expenses not previously accrued for or corrections made.	
40.3.2 Other Receivables	
Balance as per Audited financial statements (as previously reported)	789,638,001
Transfer from Other Revenue	10,788,911
Transfer to Trade and Other Payables	(22,872,080)
Transfer to Bank Balances and Cash	5,525,532
Transfer to VAT	357,280
Transfer to Accumulated Surplus	4,258,415
Transfer to Contracted Services	4,725
Transfer to Employee Related Costs	102,038
Transfer to Fines, Penalties and Forfeits	1,044,529
Transfer to Other Revenue	3,447,106
Transfer to Rental of Facilities and Equipment	240,955
Transfer to Service Charges	1,924,325
Transfer to Property Rates	(8,422,622)
	<u>786,037,115</u>
Transfer to Trade Receivables - Non-exchange Transactions (Property Rates)	<u>(380,294,122)</u>
	<u>405,742,993</u>
Income in the amount of R9 126 418, relates to various income (net movement), not previously accrued for or corrections made.	
An amount of R5 525 532, relates to a correction between Bank and Other Receivables with regards to an audit finding on the market section.	
Property Rates have been transferred from Other Receivables to Trade Receivables in terms of MSCOA	
40.3.3 VAT	
Balance as per Audited financial statements (as previously reported)	33,334,245
Transfer from Accumulated Surplus	(2,824,560)
Transfer to Trade and Other Payables	13,056,028
Transfer from Other Receivables	(357,280)
Transfer from Receivables	(273,364)
	<u>42,935,069</u>
Vat in the amount of R9 600 824 (net movement), relates to various income and expenses not previously accrued for.	
40.3.4 Trade Receivables - Exchange Transactions	
Balance as per Audited financial statements (as previously reported)	1,316,134,451
Transfer from Service charges	1,924,618
Transfer from VAT	273,364
	<u>1,318,332,433</u>
Income in the amount of R2 197 982, relates to Service charges (net movement), not previously accrued for.	
40.3.4.1 Trade Receivables - Non-exchange Transactions	
Balance as per Audited financial statements (as previously reported)	0
Other Receivables - Non-exchange Transactions	380,294,122
	<u>380,294,122</u>
Property Rates have been transferred from Other Receivables to Trade Receivables in terms of MSCOA	
40.3.5 Bank Balances and Cash	
Balance as per Audited financial statements (as previously reported)	210,417,762
Transfer from Other Receivables	(5,525,532)
	<u>204,892,230</u>
An amount of R5 525 532, relates to a correction between Bank and Other Receivables with regards to an audit finding on the market section.	
40.3.6 Consumer Deposits	
Balance as per Audited financial statements (as previously reported)	148,636,802
Transfer to Trade and Other Payables	(4,620)
	<u>148,632,182</u>
Expenses in the amount of R4 620, Relates to various expenses not previously accrued for or corrections made.	

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)

Restated 2018
R

40.3.7 Property, plant and equipment

Balance as per Audited financial statements (as previously reported)

16,459,109,203

Transfer to Depreciation

(1,495)

Transfer to Trade and Other Payables

1,306,464

16,460,414,172

Depreciation in the amount of R1 495, has now been corrected.

Assets in the amount of R1 306 464, which was not previously accrued for.

40.3.8 Inventory

Balance as per Audited financial statements (as previously reported)

179,641,204

Transfer to Contracted Services

(17,365,672)

162,275,532

Inventory in the amount of R17 365 672, relating to land of RDP housing have been reversed.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

41 CHANGE IN ACCOUNTING ESTIMATE
PROPERTY, PLANT AND EQUIPMENT
2018 and 2019 Financial year

A conditional assessment is done annually on property, plant and equipment, which indicates whether the useful lives of the assets have increased or decreased and as a result of this condition assessment some assets' useful lives have either increased or decreased and therefore the depreciation charge has now changed, which is included in the total depreciation/ amortisation.

In assessing whether there is any indication that the expected useful life of an asset has changed, the following indications have been considered - whether:

- (a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed
- (b) The use of the asset has changed, because of the following:
 - (i) The municipality has changed the manner in which the asset is used
 - (ii) The municipality has changed the utilisation rate of the asset
 - (iii) The municipality has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used
 - (iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset
 - (v) Legal or similar limits placed on the use of the asset have changed
 - (vi) The asset was idle or retired from use during the reporting period
- (c) The asset is approaching the end of its previously expected useful life
- (d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed
- (e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution
- (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period
- (g) The asset is assessed as being impaired in accordance with GRAP 21 and GRAP 26.

42 CONSTRUCTION CONTRACTS

Amount of revenue recognised - Operating	13,727,757	16,680,339
Amount of revenue recognised - Capital	205,798,002	220,988,716

Method used to determine the Revenue

Revenue is determined on a claims basis where the Municipality submit claims to the ECDoHS for expenditure incurred.

Method used to determine the stage of completion of contracts in progress:

Subsidies are approved per site for a set amount, which is determined by ECDoHS. Projects are implemented per stage and the contractors are also paid per stage.

Aggregate amount of Costs incurred and recognised surpluses (less recognised deficits) to date for houses not yet transferred	1,224,014,067	1,310,096,554
---	---------------	---------------

Amount of advances received	1,200,000	1,200,000
-----------------------------	-----------	-----------

Amount of retentions

Refer Note 7 - Included with Trade and Other Payables

Gross amounts due from customers for contract work	213,744,952	215,173,761
--	-------------	-------------

Gross amounts due to customers for contract work

Refer Note 7 - Included with Trade and Other Payables

43 OPERATING LEASE COMMITMENTS
Municipality as Lessee

2019
R

Restated 2018
R

The Municipality normally enters into a lease agreement over 3 years for most of the Operating leases.

Some leases have escalations ranging between 7 and 10% and an option to renew.

Some leases have restrictions, such as not to sub-let or not to sub-let without consent.

The Municipality has no sale and leaseback transactions.

Future minimum lease payments under non-cancellable operating leases:

Buildings

	1,716,351	7,425,837
Payable within one year	1,461,940	6,165,451
Payable within two to five years	254,411	1,260,386

Photocopier, fax machines and other equipment

	14,669,415	24,260,386
Payable within one year	9,668,629	11,902,797
Payable within two to five years	5,000,786	12,357,589

16,385,766 **31,686,223**

Municipality as Lessor

At reporting date, the Municipality has contracted with tenants for the following minimum lease payments over a period of 1 to 99 years:

No contingent rentals are charged.

Land

	12,080,465	12,560,477
Receivable within one year	480,012	480,012
Receivable within two to five years	1,920,048	1,920,048
Receivable after 5 years	9,680,405	10,160,417

Buildings

	49,317,823	55,888,697
Receivable within one year	6,792,893	6,599,074
Receivable within two to five years	17,730,591	24,039,055
Receivable after 5 years	24,794,339	25,250,568
	61,398,288	68,449,174

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
Incident / Disciplinary steps / Criminal Proceedings		
44.1 Unauthorised Expenditure		
Opening Balance	262,546,156	555,766,503
Incurred - Current year - Relating to current year	159,818,039	260,174,267
Incurred - Current year - Relating to prior year	24,995,239	0
Approved by Council	(260,174,267)	(553,394,614)
Recoveries - Current year	0	0
	187,185,167	262,546,156
44.1.1 Actual expenditure in excess of approved budget votes		
The total actual expenditure, including non-cash flow items amounted to R11 591 551 033 , compared to the approved adjustments budget of R12 436 104 165 . The actual expenditure was thus R844 553 132 below the approved adjustments budget and does not constitute unauthorised expenditure.	159,818,039	260,174,267
The total actual expenditure per budget vote exceeded the approved adjustments budget for certain Directorates by R159 818 039 which relates to non-cash items.		
44.1.2 Over-expenditure relating to contract security resulted in unauthorised expenditure.	24,995,239	0
Total	184,813,278	260,174,267
Approved by Council	(260,174,267)	(553,394,614)
44.2 Irregular Expenditure		
Opening Balance - previously stated	12,513,317,387	11,621,524,438
Restatement	0	129,076,997
Restated Opening Balance	12,513,317,387	11,750,601,435
Incurred - Current year - Relating to current year (awards)	88,320,349	137,479,053
Incurred - Current year - Relating to prior year (awards / other)	1,919,171,344	2,579,088,020
Approved by Council - Other	0	(1,953,851,121)
	14,520,809,080	12,513,317,387
1 Breach of the Supply Chain Management policy A breach occurred as certain contracts were awarded to persons in the service of the state where he/she may have a significant influence over the financial or operating policies of the entity.	253,523,522	327,699,219
2 Breach of the Supply Chain Management policy A breach occurred as certain contracts were awarded to persons in the service of the state (certain officials and family of officials) where he/she may have a significant influence over the financial or operating policies of the entity.	46,154,124	59,727,941
3 SCM Deviations Some of the deviations relating to the tender process appear to be made where improper planning was conducted and expenditure were incurred before the deviation was approved and therefore considered to be irregular.		
- Relating to current year	22,153,984	58,204,256
- Relating to prior year	377,218,760	390,485,087
7 Breach of the Supply Chain Management policy Payments made which was in contravention of the scm policy which was not previously disclosed.	29,558,322	27,337,713

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)		
44.2 Irregular Expenditure (Continued)		
8 Irregular Expenditure review by Internal Audit		
NB: This section of the Irregular Expenditure represents the "historic" irregular expenditure incurred as reported by Internal Audit Unit in terms of the two reports that were issued in 2014/15 and 2015/16 relating to a number of financial years dating back from around 2003. The irregularity in these instances continued to 2016/17 financial year as some of the tender / SCM Files were still in use (or work proceeding). This figure therefore does not relate to any irregularity that may have occurred during the year under review (i.e. 2016/17). Important to note is the fact that there are reports that have been taken to Council structures in order to deal with these matters and the first reports are to be discussed at MPAC Sub Committee on the 31 August 2017.		
Non-compliance with regards to the Formal Bid and Deviation process		
Incurred - Current year - Relating to current year Tenders	66,166,365	79,274,797
Incurred - Current year - Relating to prior year Tenders	1,212,716,616	1,773,838,060
Total	2,007,491,693	2,716,567,073
Total amount approved by Council in respect of ALL cases	0	(1,953,851,121)
9 Information not available (Limitation of Scope)		
Opening Balance - previously stated	2,593,906,602	7,929,006,233
Restatement	0	0
Restate Opening Balance	2,593,906,602	7,929,006,233
Incurred - Current year - Relating to prior year Tenders	463,971,145	774,557,277
Approved by Council - Other	0	(6,109,656,908)
	3,057,877,747	2,593,906,602
Total amount approved by Council in respect of ALL cases	0	(6,109,656,908)

This section of the note has not been included in the Irregular expense calculation, because it is impracticable in terms of GRAP 1 to determine whether the tender files are indeed Irregular or Regular as described below:

Section 44.2.14 of this disclosure note represents expenditure incurred on SCM / Tender files that were declared by Internal Audit Unit in around 2014/15 and 2015/16 to be a LIMITATION OF SCOPE as the AG could not be provided with the said files. The expenditure referred to dates back to around 2003 financial year. As the expenditure on the affected SCM / Tender Files continued to the 2016/17 financial year the actuals have been extended to include the reported financial year. Detailed reports dealing with these files are to be submitted to Council structures starting from the MPAC Sub Committee dated 31 August 2017, whereafter the note will be amended only after Council approves the recommendation/s on how to deal with these matters. This effectively means that this expenditure is historic or relates to historic financial years.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	Restated 2018 R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)		
44.3 Fruitless and Wasteful Expenditure		
Opening Balance	658,237,141	655,607,136
Restatement - Incurred	0	0
Restated Opening Balance	658,237,141	655,607,136
Incurred - Current year - Relating to current year	6,482,808	2,714,185
Incurred - Current year - Relating to prior year	4,182,726	0
Approved by Council - Other reversed	0	(84,180)
	668,902,675	658,237,141
1 Suspended Officials		
Various officials have been on suspension for more than 3 months. In terms of the South African Local Government Bargaining Council; disciplinary procedure and collective agreement, the period of suspension shall not exceed a period of 3 months. Matter to be referred to Labour Relations.	6,482,808	2,183,815
2 Additional expenditure incurred by the Directorate when a tender was in place which resulted in Fruitless and Wasteful expenditure.	4,182,726	0
3 Fruitless and Wasteful expenditure incurred by certain Directorates	0	530,370
Total	10,665,534	2,714,185
Total amount approved by Council for in respect of ALL cases	0	(84,180)
45(a) CONTINGENT LIABILITIES		
These are ongoing matters and the Municipality is unable to determine the exact timing and amount of the outcome of these matters.		
Should any liability arise as a result of these claims, the Municipality will attempt to recover any amounts paid over with respect to these claims (if applicable and able to do so).		
Possible Contingent liabilities:		
1 Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	128,566,366	102,380,358
2 Various claims due to municipal administrative matters that are under dispute or investigation.	16,554,066	788,305
3 Various claims by current or terminated employees due to alleged unfair labour practices.	882,793	18,715,902
4 Various claims due to supply chain related issues or creditor payment related matters.	222,961,772	215,602,183
	368,964,996	337,486,748
45(b) PROVISION FOR LITIGATION AND CLAIMS		
Detail of Provision raised in Note 5.2		
1 Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	82,002	11,218,744
2 Various claims due to municipal administrative matters that are under dispute or investigation.	0	20,920,000
3 Various claims by current or terminated employees due to alleged unfair labour practices.	0	1,032,793
4 Various claims due to supply chain related issues or creditor payment related matters.	0	5,600,000
TOTAL PROVISION REFER NOTE 5.2	82,002	38,771,537
45(c) CONTINGENT ASSETS		
These are ongoing matters and the Municipality is unable to determine the exact timing and amount of the outcome of these matters.		
Possible Contingent assets		
1 Various claims due to supply chain related issues or creditor payment related matters.	55,500,000	0
	55,500,000	0
46 EVENTS AFTER REPORTING DATE		
None as yet		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits

RETIREMENT BENEFIT INFORMATION

The Nelson Mandela Bay Municipality makes provision for post-retirement benefits to employees who belong to different pension schemes. These funds are governed by the Pension Funds Act, and include both defined benefit and defined contribution schemes. Contribution of R302.028 million (2018: R269.312 million) to the defined benefit and defined contribution structures are expensed as incurred during the financial year ended 30 June 2019.

DEFINED CONTRIBUTION SCHEMES

CONSOLIDATED RETIREMENT FUND

The contribution rate paid by the members (9%) and the NMBM (18%) is sufficient to fund the benefits accruing from the fund in future. The actuary certified the fund as being in a sound financial position as at 30 June 2013. The funding level of the Share Account is 100.2%, the Preservation fund is 100% and the Pensions Account reflected a funding level of 105.1% as at 30 June 2013.

SALA CONTRIBUTION FUND

The SALA Contribution Fund operates as a defined contribution scheme. The contribution rate paid by the members (7.92%) and their councils (19.18%) is sufficient to fund the benefits accruing from the Fund in the future. The fund is 100% funded.

SOUTH AFRICAN MUNICIPAL WORKERS UNION (SAMWU) NATIONAL PROVIDENT FUND

The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the Fund was performed at 30 June 2008, and certified it as being in a financially sound position with the funding level remaining at 100% since the previous valuation date, 30 June 2005. The 30 June 2011 report is not available yet and is expected to be available towards the end of 2014. The contribution rate paid by the members (7.5%) and their councils (18%) is sufficient to fund the benefits accruing from the Fund in the future.

DEFINED BENEFIT SCHEMES

CAPE JOINT PENSION FUND

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is 27% (9% by the members and 18% by their councils) and is constituted of 3 funds, namely, the Defined Benefit, Defined Contribution and Pensioner account. The fund was certified by the actuary as being in a sound financial condition as at 30 June 2013. The trustees resolved to ring-fence the pensioner assets as at 30 June 2013. The sections are funded at 99.7%, 99.8% and 100%, respectively.

SALA PENSION FUND

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is **26.67% (7.92% by the members and 19.18% by their councils)**. This defined benefit plan, is financially sound, and was 100% funded as at 30 June 2013.

The Nelson Mandela Bay Municipality has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Municipality has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Municipality but do it as a whole for all the Municipalities together.

EX GRATIA PENSIONS

General Description

The Ex-gratia pension benefits scheme operates as pensions that are being paid from the Council's revenue, that is, they are not funded or paid from one of the Employer's formalised pension arrangements.

Employees who were under the age of 55 when appointed and who have at least ten years' service at retirement, will receive an annual ex-gratia pension calculated as:

Annual salary * 1/47 * Years of non-pensionable service

An employee's widow will get 50% of the accrued (full service) pension on the employees death. This is subject to a maximum of the Government Old Age Pension and will cease at age 60.

Pensions increase in line with those granted by the Cape Joint Pension Fund and increases at 50% of CPI inflation.

Detailed Results

An actuarial valuation of the Municipality's unfunded liability in respect of revenue pension benefits to eligible employees and retirees of the Nelson Mandela Bay Municipality, was performed as at 30 June 2017. The unfunded liability in respect of past service has been estimated at R47.116million, of which R43.445 million relates to the non-current portion. The unfunded liability balance at 30 June 2019 is based on projected figures as determined by the Actuaries in their 2016/17 Valuation Report.

Past and Future Changes in the Accrued Liability

The table below shows the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the two-year period following the Valuation Date.

Past year and future projected liability

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Opening Accrued Liability	42,827,090	46,786,903	46,948,394
Current service cost	0	0	0
Interest cost	3,490,206	3,825,559	3,838,995
Benefits paid	-3,113,490	-3,664,068	-3,671,176
Total Annual Expense	376,716	161,491	167,819
Actuarial Loss / (Gain)	3,583,097		
Closing Accrued Liability	46,786,903	46,948,394	47,116,213

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Statement of Financial Position Figures

Unfunded Accrued Liability

Balance Sheet	Year ending 30/06/2018	Year ending 30/06/2019
Fair Value of Plan Assets		
Accrued Liability	46,948,394	47,116,213
Unfunded Accrued Liability	46,948,394	47,116,213
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
Closing Balance	46,948,394	47,116,213

Reconciling and Projecting the Unfunded Accrued Liability

Unfunded Accrued Liability	Year ending 30/06/2017	Year ending 30/06/2018
Opening Balance	46,786,903	46,948,394
Current Service Cost	0	0
Interest Cost	3,825,559	3,838,995
Expected Return on Plan Assets	0	0
Actuarial (Gain) /Loss	0	0
Past Service Cost		
Effect of Curtailment / Settlement		
Expected Employer Benefit Payments	-3,664,068	-3,671,176
Employer Prefunding Contributions	0	0
Closing Balance	46,948,394	47,116,213
Projected Accrued Liability	46,948,394	47,116,213

Amounts to be recognised in profit or loss for the year (period)

Category	Year ending 30/06/2018	Year ending 30/06/2019
Current Service Cost (In-Service members only)	0	0
Interest Cost	3,490,206	3,838,995
Actuarial (Gain)/Loss	3,583,097	0
Total employee benefits expense	7,073,303	3,838,995

KEY ASSUMPTIONS

Summary of economic assumptions that were used in the valuation:

Assumption	Previous Valuation 30 June 2015	Current Valuation 30 June 2017
Discount rate	8.94% pa	8.50% pa
Future Inflation	6.57% pa	6.37% pa
Pension Inflation	8.07% pa	2.68% pa
Subsidy Inflation	0.98% pa	2.01% pa
Post Retirement Interest Rate	0.81% pa	5.67% pa

Discount Rate:

A discount rate of 8.50% per annum has been used. The corresponding index-linked yield at this term is 2.50%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Securities Exchange after the market close on 30 June 2017.

CPI Inflation:

This assumption is used to calculate the estimated growth in pensions of the eligible retirees. An expected inflation assumption of 5.37% was obtained from the differential between market yields on index-linked bonds (2.50%) consistent with the estimated term of the liability and those of fixed-interest bonds (8.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $(1+8.50\%-0.50\%)/(1+2.50\%)$.

Thus, a pension increase rate of 2.68% per annum over the expected term of the liability has been assumed, which is 50% of the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 5.67% post-employment.

Salary Inflation Rate:

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. A general inflation rate of 6.37% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.01%.

Demographic Assumptions:

Demographic assumptions are required about the future characteristics of eligible employees and pensioners who are eligible for ex-gratia benefits.

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted for female lives.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Post-retirement Mortality:

PA (90) ultimate table.

average Retirement Age:

The normal retirement age for eligible employees is 65. It has been assumed that these employees will retire at an average age of 63 for males and 58 for females, which then implicitly allows for expected rates of early retirement and ill-health retirement.

Withdrawal from Service:

If an eligible employee leaves, the employer's liability in respect of that employee ceases.

Withdrawal rates

Age	Withdrawal Rate Males	Withdrawal Rate Females
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
>55	1%	1%

Ex-Gratia Arrangement Assumptions:

It was assumed that employer's ex-gratia arrangements would remain as they are and that the level of benefits in respect of such would remain unchanged, with the exception of allowing for inflationary adjustments.

Plan Assets:

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment ex-gratia pensions.

Sensitivity Analysis

The results are based on a number of assumptions. The extent to which the actual liability faced by the Municipality in the future differs from these results will depend on the extent to which actual expenditure differs from the assumptions made.

Sensitivity Results

The liability at Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease and increase in the assumed average retirement age; and
- (v) A 50% decrease in the assumed withdrawal rates.

The table below summarises the results of the sensitivity analysis:

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Employees	Pensioners	Total Liability	% Change
Central Assumptions:		18,746,498	28,040,405	46,786,903	
Benefit increase rate	+1%	20,494,279	29,859,583	50,353,862	8%
	-1%	17,219,283	26,401,222	43,620,505	-7%
Discount Rate	+1%	16,415,494	26,498,482	42,913,975	-8%
	-1%	21,576,872	29,773,833	51,350,705	10%
Post retirement mortality	-1 yr	19,135,227	28,911,437	48,046,664	3%
Average retirement age	-1 yr	20,720,039	28,040,405	48,760,443	4%
Withdrawal Rate	-50%	19,459,236	28,040,405	47,499,640	2%

POST-EMPLOYMENT HEALTH CARE BENEFITS

Benefit Structure

Medical Aid Scheme Arrangements:

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

Contribution Rate Structure:

Members contribute according to the tables of contribution rates, which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Subsidy Arrangements:

The Municipality has agreed to subsidise the medical aid contributions of retired members as follows:

In accordance with Resolution 8 of the SALGBC (SALGA), all existing and new pensioners (employees currently in service) and their dependants will receive a subsidy ranging between 60% and 70% subject to the maximum (CAP) amount of **R4,218.00** (per month, per member) for the period from 1 July 2018 to 30 June 2019. The subsidy for LA Health members is 70%, while members of other schemes only qualify for a 60% subsidy. The maximum (CAP) amount was R3,871.00 in the previous financial year.

The maximum subsidy is expected to increase at 50% of inflation.

Eligible employees should have at least five years of service to qualify for a benefit at retirement.

Valuation Method

The Projected Unit Credit funding method has been used to determine the past service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post Employment Medical Aid Liabilities:

The liability in respect of active employees is determined by discounting the projected future benefit payments in respect of these members using assumptions regarding the possible future experience. The liability has been proportioned between past service and future service.

The liability in respect of current pensioners is fully accounted for.

The current service cost is the cost of providing the benefits over the year following the valuation date.

All actuarial gains and losses are recognised immediately and we have not allowed for any disclosure under the corridor method.

Valuation of Assets:

As at the valuation date, the medical aid liability of the municipality was unfunded, that is, no dedicated assets have been set aside to meet this liability. Therefore, no assets have been considered as part of this valuation.

Detailed Results

The total liability in respect of post-retirement health care benefits amounts to R1,586,896 million as at 30 June 2018 (2017: R1,473,368 million). Provision for R1,473,368 million has been made (non-current R1,502,617million, current R84,279 million). It is expected that approximately 5.31% of the amount provided will be expensed per annum. This is dependent on the accuracy of the assumptions below.

Past and Future Changes in the Accrued Liability

The table below depicts the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the next 3 periods following the Valuation Date.

Past year and future projected liability

	Year ending 30/06/2016 R	Year ending 30/06/2017 R'000	Year ending 30/06/2018 R'000	Year ending 30/06/2019 R'000	Year ending 30/06/2020 R'000
Opening Accrued Liability	1,228,072,012	1,332,541	1,360,663	1,473,368	1,586,896
Service cost	40,399,544	44,010	44,099	47,337	53,006
Interest cost	107,833,956	118,774	130,556	140,987	151,770
Benefits paid	-43,764,888	-52,123	-61,950	-74,796	-84,279
Total Annual Expense	104,468,612	110,661	112,705	113,528	120,497
Actuarial Loss / (Gain)		-82,539			
Closing Accrued Liability	1,332,540,624	1,360,663	1,473,368	1,586,896	1,707,393

Balance Sheet Figures

Unfunded Accrued Liability

	Year ending 30/06/2019 R'000	Year ending 30/06/2018 R'000
Balance Sheet		
Fair Value of Plan Assets		
Accrued Liability	1,586,896	1,473,368
Unfunded Accrued Liability	1,586,896	1,473,368
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
Closing Balance	1,586,896	1,473,368

Amounts to be recognised in profit or loss for the year (period)

Category	Year ending 30/06/2019	Year ending 30/06/2018
Service Cost (In-Service members only)	47,337	44,099
Interest Cost	140,987	130,556
Actuarial (Gain)/Loss [2017: Gain on Financial Basis]		
Actuarial (Gain)/Loss [2017: Loss on Experience]		
Total employee benefits expense	188,324	174,655

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

KEY ASSUMPTIONS

Summary of economic assumptions that were used in the valuation:

Assumption	Previous Valuation 30 June 2015	Current Valuation 30 June 2017
Discount rate	8.94% pa	9.66% pa
Future Inflation	6.57% pa	6.53% pa
Medical Inflation	8.07% pa	8.03% pa
Subsidy Inflation	3.29% pa	3.27% pa
Post Retirement Interest Rate	0.81% pa	1.5% pa

Discount Rate:

The discount rate that reflects the time value of money is best approximated by reference to market yields on Government Bonds. The average nominal yield curve produced by the Johannesburg Securities Exchange for SA Government bonds with duration between 15 and 20 years, has been used. The resultant discount rate is 9.66%.

Future Inflation Assumptions:

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase. The difference between the above nominal and real bonds with duration of between 15 and 20 years has been used and allowed for a 0.5% inflation risk premium. The implied inflation assumption is therefore 6.53% per annum.

Future medical Inflation Assumption:

The general inflation assumption is used to estimate the base rate for determining the rate at which the future medical subsidies will increase.

It is assumed that medical cost will outstrip general inflation by about 1.5% per annum, as South Africa has experienced high medical cost inflation in recent years.

The medical cost inflation was therefore set at 8.03% per annum.

In line with the previous valuation it has been assumed that the maximum subsidy will increase at a rate of 50% of inflation. It is also noted that there has not been any increase in the maximum since 2015.

Net Discount Rate:

The net discount rate is the gap between the values used for the discount rate and the expected increase in salaries. The net discount rate is 1.50% per annum (derived from the discount rate of 9.66% and the expected medical inflation rate of 8.03%).

Demographic Valuation Assumptions:

Pre-Retirement Mortality:

The SA85/90 light mortality table, rated down by 3 years for female members, was used in the valuation for the mortality of in-service members.

Post-Retirement Mortality:

The PA90 ultimate mortality table was used in the valuation for the mortality of Continuation Members.

Withdrawal Rates:

Age	Withdrawal Rate Males	Withdrawal Rate Females
20	24%	16%
30	15%	10%
40	6%	6%
50	2%	2%
55+	0%	0%

Assumed Retirement Age:

The normal retirement age is 65 years. Consistent with the previous years' assumptions, it has been assumed that male employees will retire at age 63 and female employees at age 58, which implicitly allows for the expected rates of early retirement.

Family Profile:

It is assumed that 90% of In-Service Members on a medical arrangement will be married at retirement. Males are assumed to be five years older than their female spouses. Where the data provided in respect of the Continuation Members, indicated that the spouse was married we have used the actual spouses date of birth. Where this was not known, we have assumed that the male spouse was 5 years older than the female spouse. Members have been assumed to have no dependent children after retirement.

Continuation of Membership:

It has been assumed that 100% of In-Service Members will remain on the Municipality's health care arrangement should they stay until retirement. No provision has been made for employees currently not on Municipality-sponsored scheme to join prior to retirement. This is consistent with previous years' assumptions. It was assumed that employees retiring will remain on the current plan and option at retirement and it was assumed they will remain in the same income category after retirement.

Changes since the previous valuation:

There were no changes to the rules governing payment and eligibility for the medical subsidy since the previous valuation. As far as the assumptions are concerned, the discount rate and general inflation, which are dependent on the market at the time of valuation, are different from the previous valuation.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Plan Assets:

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Sensitivity Analysis

The results are based on a number of assumptions. The extent to which the actual liability faced by the Municipality in the future differs from these results will depend on the extent to which actual expenditure differs from the assumptions made.

The analysis is based on the following changes:

- (a) A 1% increase/decrease in the net discount rate; and
- (b) A 1-year increase/decrease in the normal retirement age.

Sensitivity Analysis on the Accrued Liability (R millions)

Assumption	Current Assumption 9.66%	1% Decrease 8.66%	1% Increase 10.66%
Discount Rate			
Liability (R'000)	1,360,633	1,544,019	1,209,720
Cost / (Saving) (R'000)		183,356	-150,943
Post retirement mortality	Current Assumption Males 63, Females 58	All Members 63	All Members 65
Liability (R'000)	1,360,633	1,257,798	1,122,878
Cost / (Saving) (R'000)		-102,865	-237,785

LONG SERVICE AWARD AND LONG SERVICE BONUS

Description of the Long Service Award Arrangement

Long Service Bonuses:

Long service benefits are awarded in the form of leave days and a percentage of annual salary. The awarded leave days have been converted into a percentage of the employee's annual salary, for valuation purposes. The conversion is based on a 250 working day year.

The LSB benefits have improved significantly from 01 July 2017. The Municipality now offers employees LSB as outlined below.

Long Service Awards:

In addition to the above, employees are eligible to receive a Long Service Award to the value of R2,500 upon completion of 25 years in service.

The table below describes the benefits accruing to those employed under the SALGBC LSB Agreement. The policy applicable to the subgroups appointed prior to 01 July 2017 will change to the policy outlined in tables 3.2 to 3.4, once they reach twelve years of service.

Table 3.1: Long Service Bonus for levels of past service:

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4%	(5/250+2%) * annual salary
10	7%	(10/250+3%) * annual salary
15	10%	(15/250+4%) * annual salary
20	11%	(15/250+5%) * annual salary
25, 30, 35, 40 and 45	12%	(15/250+6%) * annual salary

Tables 3.2 to 3.4 describe the policy that the Municipality is phasing-in over a four-year period, for the balance of the employees. This includes all employees from the former Municipalities of Port Elizabeth, Uitenhage, Despatch and Western District Council. However, the Uitenhage employees are already on the highest level, since this was their LSB policy prior to their transfer. The purpose of the amendment of the SALGBC LSB policy is to harmonise the conditions of employment, as it relates to the LSB, across all of the Metro employees.

The bonuses are paid on a monthly basis and also apply to an employee's 13th cheque.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Table 3.2: Long Service Bonus for levels of past service (phase-in, year two: 01 July 2017 to 30 June 2018)

Completed Service (in years)	Long Service Bonuses (% of Annual Salary plus 13th cheque)	Description
12 to 17	4.0%	4.0% x monthly
18 to 23	8.5%	8.5% x monthly salary x 13
24 and above	13.0%	13.0% x monthly salary x 13

Table 3.3: Long Service Bonus for levels of past service (phase-in, year three: 01 July 2018 to 30 June 2019)

Completed Service (in years)	Long Service	Description
12 to 17	4.5%	4.5% x monthly
18 to 23	9.0%	9% x monthly salary
24 and above	14.0%	14.0% x monthly

Table 3.4: Long Service Bonus for levels of past service (phase-in, year four: 01 July 2019 to 30 June 2020)

Completed Service (in years)	Long Service	Description
12 to 17	5.0%	5.0% x monthly
18 to 23	10.0%	10.0% x monthly
24 and above	15.0%	15.0% x monthly

Reconciliation of opening and closing accrued liability values

Past year and future projected liability

	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening Accrued Liability	135,956,781	726,184,717	736,271,822	740,582,510
Current service cost	12,314,334	45,223,085	48,789,070	52,636,244
Interest cost	9,947,246	53,821,244	54,239,131	54,660,263
Expected benefit vestings	-19,343,094	-88,957,224	-98,717,513	-109,548,690
Total Annual Expense	2,918,486	10,087,105	4,310,688	-2,252,183
Past Service Cost	577,822,395			
Actuarial Loss / (Gain)	9,487,055			
Accrued Liability	726,184,717	736,271,822	740,582,510	738,330,327

Net Liability to reflect in the Balance Sheet

Net Liability in Balance Sheet	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019
Opening Balance	135,956,781	726,184,717	736,271,822
Current service cost	12,314,334	45,223,085	48,789,070
Interest cost	9,947,246	53,821,244	54,239,131
Expected return on plan assets	0	0	0
Transitional Liability Recognised	0	0	0
Actuarial (Gain) / Loss Recognised in P&L	9,487,055		
Past service cost Recognised	577,822,395	0	0
Effect of curtailment / Settlement	0	0	0
Miscellaneous Item	0	0	0
Net Periodic Cost Recognised in P&L	609,571,030	99,044,329	103,028,201
Expected benefit vestings	-193,430,94	-88,957,224	-98,717,513
Transitional Liability Recognised outside P&L	0	0	0
Actuarial (Gain) / Loss Recognised outside P&L	0	0	0
Closing Balance	726,184,717	736,271,822	740,582,510
Current Portion of Liability	889,572,24	88,957,224	109,548,690
Non-Current Portion of Liability	637,227,493	647,314,598	631,033,820

Key Assumptions

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the 2017/18 financial year.

Assumption	Value p.a.
Discount Rate	7.89%
General Salary Inflation (Long Term)	5.85%
Net Effective Discount Rate	1.92%

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.63% as per the SALGBC Circular No. 02/2017. The next salary increase was assumed to take place on 1 July 2018.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Key Demographic Assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Mortality during employment	SA 85-90		
Withdrawal from service	Age	Rate	
		Female	Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%

Detailed Assumptions

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.89% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 2.41%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2017.

The average duration of the total liability is 5.74 years.

Salary Inflation Rate:

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement.

The assumption is traditionally split into two components, namely, General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation:

The expected inflation of 4.85% was obtained from the differential between market yields and index-linked bonds (2.41%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.89%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1 + 7.89\% - 0.50\%) / (1 + 2.41\%)) - 1$.

Thus a general salary inflation rate of 5.85% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.92%.

It has been assumed that the next salary increase will take place on 1 July 2018.

Demographic Assumptions

Promotional Salary Scale:

The annual inflation rates below are in addition to the General Salary Inflation assumption of 5.85% per annum for all employees.

Age Band	Additional promotional scale
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
>44	0%

Pre-Retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:

The normal retirement age is 65. It has been assumed that male employees will retire at age 63 and female employees will retire at age 58 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

LSB Arrangement Assumptions

It was assumed that the employer's LSB arrangements would remain unchanged, and that the level of benefits would remain unchanged, with the exception of allowing for inflationary

Plan Assets:

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

Sensitivity Analysis

The liability at Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Sensitivity Analysis on the Unfunded Accrued Liability (R Millions)

Assumption	Change	Liability	% Change
Central Assumptions		726,185	
General salary inflation	+1%	767,599	6%
	-1%	688,181	-5%
Discount Rate	+1%	686,378	-5%
	-1%	770,388	6%
Average retirement age	-2 yrs	610,919	-16%
	+2 yrs	843,482	16%
Withdrawal rates	-50%	805,318	11%

Sensitivity analysis on current service cost and interest costs for the year ending 30 June 2017

Assumption	Change	Current service cost	Interest cost	Total	% Change
Central Assumptions		11,416,400	9,728,900	21,145,300	
General salary inflation	+1%	12,215,400	10,304,400	22,519,800	7%
	-1%	10,692,900	9,200,600	19,893,500	-6%
Discount rate	+1%	10,753,900	10,331,000	21,084,900	0%
	-1%	12,160,000	9,037,800	21,197,800	0%
Average retirement age	-2 yrs	10,237,100	8,384,100	18,621,200	-12%
	+2 yrs	12,488,200	11,064,100	23,552,300	11%
Withdrawal rates	-50%	13,902,700	11,043,300	24,946,000	18%

GRATUITY BENEFITS

Benefit Structure

Employees who commenced employment prior to 01 September 1988 are eligible for Standard or Enhanced Gratuity Pensions, as follows:

Employees that were employed prior to the introduction of the PEM Pension Benefit Fund and who subsequently joined the Fund are eligible to be paid a Standard Gratuity, provided they have at least 10 years of service when they retire:

Employees that were employed prior to the introduction of the PEM Pension Benefit Fund and who chose not to join the Fund are eligible to be paid an Enhanced Gratuity for their years of service that they were not members of the Fund.

When an employee eligible for a Gratuity Pension dies in-service, half of the Gratuity Pension (including the monetary enhancement) as calculated at date of death, is paid.

Financial Valuation Assumptions

A summary of the economic assumptions that were used is given below:

Assumption	Current Valuation 30 June 2017
Discount Rate	9.09% p.a.
Future Inflation	6.00% p.a.
Wage Inflation	7.00% p.a.
Net Gap Enhanced Gratuities	1.95% p.a.
Net Gap Standard Gratuities	0% p.a.

Demographic Valuation Assumptions

Pre-Retirement Mortality

The SA85/90 light mortality table, rated down by 3 years for female members, was used in the valuation for the mortality of in-service members.

Withdrawal Rates

Age	Females	Males
20	24%	16%
30	15%	10%
40	6%	6%
50	2%	2%
55+	0%	0%

Assumed Retirement Age

The normal retirement age is 65 years. We have assumed that male employees will retire at age 63 and female employees will retire at age 58, which allows for the expected rates of early retirement.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

47 Information on Post Retirement Benefits (Continued)

Valuation Results

The Actuarial Liability was as follows at 30 June 2017:

	30 June 2017 R'000
Standard Gratuity Pension Liability	10,234
Enhanced Gratuity Pension Liability	4,810
Monetary Enhancement	769
Total Accrued Liability	15,813
Balance Sheet Provision	15,813

Actuarial Gains and Losses

Disclosure of additional information relating to the costs and benefits that were paid or accrued in respect of employees during the 2016/17 financial year, could not be calculated since no prior year valuation of the gratuity benefits has been carried out.

Projections

The projections of the expected change in the obligation over the period 30 June 2017 to 30 June 2020, is as follows:

Benefit Projection	Year Ending 30 June 2018 R'000	Year Ending 30 June 2019 R'000	Year Ending 30 June 2020 R'000
PBO at start of the period	15,813	11,332	11,523
Interest Cost	944	960	999
Service Cost	207	354	389
Expected Benefit Payments	-5,632	-1,123	-928
PBO at end of period	11,332	11,523	11,983

Sensitivity Analysis

The following changes were made:

(a) A 1% increase/decrease in the net discount rate.

	Current Assumption 9.66%	1% decrease 8.66%	1% increase 10.66%
Inflation			
Liability (R'000)	15,813	16,113	15,541
Cost / (Saving) (R'000)		300	-572

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

48 PROPERTY, PLANT AND EQUIPMENT RECONCILIATION

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
Restated Carry Value 1 July 2018					
Cost	2,067,301,622	16,933,264,976	3,473,508,914	1,440,191,354	23,914,266,866
Transfers/Adjustments - Costs		1,304,967			1,304,967
Restatement - Cost					
Disposal/Impairment					
Transfers/Adjustments - Depreciation					
Accumulated Depreciation	(274,383,069)	(5,461,695,870)	(931,599,240)	(787,479,482)	(7,455,157,661)
	1,792,918,553	11,472,874,073	2,541,909,674	652,711,872	16,460,414,172
Movement during the year ended 30 June 2019					
Acquisitions	56,595,746	1,442,093,064	109,372,185	49,746,992	1,657,807,987
Transfers / Adjustments - Cost	997,557	23,987,000	16,973,093	93,808,243	135,765,893
Useful lives Adjustment - Depreciation	(35,849,667)	(626,831,222)	(98,836,424)	(115,812,450)	(877,329,763)
Depreciation					
	21,743,636	839,248,842	27,508,854	27,742,785	916,244,117
Carry Value of Disposals/Impairments during the year ended 30 June 2019					
Cost	-		(823,698)	(1,777,465)	(2,601,163)
Depreciation	-		(255,234)	1,668,137	1,412,903
	-	-	(1,078,932)	(109,328)	(1,188,260)
Carrying Values at 30 June 2019	1,814,662,189	12,312,122,915	2,568,339,596	680,345,329	17,375,470,029
Summary - Carrying Values at 30 June 2019					
Summary - Cost	2,124,894,925	18,400,650,007	3,599,030,494	1,581,969,124	25,706,544,550
Summary - Accumulated Depreciation	(310,232,736)	(6,088,527,092)	(1,030,690,898)	(901,623,795)	(8,331,074,521)
	1,814,662,189	12,312,122,915	2,568,339,596	680,345,329	17,375,470,029

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
Restated Carry Value 1 July 2017					
Cost	2,011,459,158	15,485,484,894	3,385,600,252	1,332,753,043	22,215,297,347
Transfers/Adjustments - Costs					
Restatement - Cost	-	-		1,306,464	1,306,464
Disposal/Impairment					
Transfers/Adjustments - Depreciation				(1,495)	(1,495)
Accumulated Depreciation	(240,762,698)	(5,019,282,921)	(822,927,203)	(742,945,071)	(6,825,917,893)
	1,770,696,460	10,466,201,973	2,562,673,049	591,112,941	15,390,684,423
Movement during the year ended 30 June 2018					
Acquisitions	54,203,372	1,424,551,479	78,301,763	90,786,242	1,647,842,856
Transfers / Adjustments - Cost	1,639,092	23,228,602	9,647,792	18,779,054	53,294,540
Transfers / Adjustment - Depreciation		6,075,398		50,373,584	56,448,982
Depreciation	(33,620,371)	(448,488,347)	(108,672,037)	(96,841,859)	(687,622,614)
	22,222,093	1,005,367,132	(20,722,482)	63,097,021	1,069,963,764
Carry Value of Disposals/Impairments during the year ended 30 June 2018					
Cost		-	(40,894)	(2,126,985)	(2,167,879)
Depreciation		-	-	1,933,864	1,933,864
	-	-	(40,894)	(193,121)	(234,015)
Carrying Values at 30 June 2018	1,792,918,553	11,471,569,105	2,541,909,673	654,016,841	16,460,414,172
Summary - Carrying Values at 30 June 2018					
Summary - Cost	2,067,301,622	16,933,264,975	3,473,508,913	1,441,497,818	23,915,573,328
Summary - Accumulated Depreciation	(274,383,069)	(5,461,695,870)	(931,599,240)	(787,480,977)	(7,455,159,156)
	1,792,918,553	11,471,569,105	2,541,909,673	654,016,841	16,460,414,172

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

49 HERITAGE ASSETS RECONCILIATION

Reconciliation of Carrying Value	Heritage Assets
Restated Carry Value 1 July 2018	
Cost	229,450,493
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	229,450,493
Movement during the year ended 30 June 2019	
Acquisition	3,075,851
Transfers / Adjustment / Take on	-
Impairment	(15,820,657)
	(12,744,806)
Impairment value during the year ended 30 June 2018	
Cost	-
Amortisation	-
	-
Carrying Values at 30 June 2019	216,705,687
Summary - Carrying Values at 30 June 2019	
Summary - Cost	232,526,344
Summary - Accumulated Impairment	(15,820,657)
	216,705,687

Reconciliation of Carrying Value	Heritage Assets
Restated Carry Value 1 July 2017	
Cost	223,972,131
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	223,972,131
Movement during the year ended 30 June 2018	
Acquisition	-
Transfers / Adjustment	5,478,362
Impairment	-
	5,478,362
Impairment value during the year ended 30 June 2018	
Cost	-
Amortisation	-
	-
Carrying Values at 30 June 2018	229,450,493
Summary - Carrying Values at 30 June 2018	
Summary - Cost	229,450,493
Summary - Accumulated Impairment	-
	229,450,493

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

50 INTANGIBLE ASSETS RECONCILIATION

Reconciliation of Carrying Value	Intangible Assets
Restated Carry Value 1 July 2018	
Cost	601,049,806
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(158,449,608)
	442,600,198
Movement during the year ended 30 June 2019	
Acquisition	16,807,127
Transfers/Adjustments	-
Useful lives adjustment - Amortisation	(90,814,045)
Amortisation	(74,006,918)
Impairment/ Disposal value during the year ended 30 June 2019	
Cost	-
Amortisation	0
	-
Carrying Values at 30 June 2019	368,593,280
Summary - Carrying Values at 30 June 2019	
Summary - Cost	617,856,933
Summary - Accumulated Amortisation	(249,263,653)
	368,593,280

Reconciliation of Carrying Value	Intangible Assets
Restated Carry Value 1 July 2017	
Cost	598,538,384
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(515,180,925)
	83,357,459
Movement during the year ended 30 June 2018	
Acquisition	2,511,422
Transfers/Adjustments	-
Transfers/Adjustments	467,784,078
Amortisation	(111,052,761)
	359,242,739
Impairment/ Disposal value during the year ended 30 June 2018	
Cost	-
Amortisation	0
	-
Carrying Values at 30 June 2018	442,600,198
Summary - Carrying Values at 30 June 2018	
Summary - Cost	601,049,806
Summary - Accumulated Amortisation	(158,449,608)
	442,600,198

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

51 INVESTMENT PROPERTY RECONCILIATION

Reconciliation of Carrying Value	Investment Property
Restated Carry Value 1 July 2018	
Cost	289,847,527
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(69,467,800)
	220,379,727
Movement during the year ended 30 June 2019	
Acquisition / Take-on	794,620
Transfers/Adjustments	-
Transfers/Adjustments	-
Depreciation	(5,556,289)
	(4,761,669)
Carry Value of Disposals for the year ended 30 June 2019	
Cost	-
Depreciation	-
	-
Carrying Values at 30 June 2019	215,618,058
Summary - Carrying Values at 30 June 2019	
Summary - Cost	290,642,147
Summary - Accumulated Depreciation	(75,024,089)
	215,618,058

Reconciliation of Carrying Value	Investment Property
Restated Carry Value 1 July 2017	
Cost	256,233,049
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(62,601,854)
	193,631,195
Movement during the year ended 30 June 2018	
Acquisition / Take-on	33,614,478
Transfers/Adjustments	-
Transfers/Adjustments	-
Depreciation	(6,865,946)
	26,748,532
Carry Value of Disposals for the year ended 30 June 2018	
Cost	-
Depreciation	-
	-
Carrying Values at 30 June 2018	220,379,727
Summary - Carrying Values at 30 June 2018	
Summary - Cost	289,847,527
Summary - Accumulated Depreciation	(69,467,800)
	220,379,727

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

52 FINANCIAL INSTRUMENTS

Financial instruments are classified into the following categories:

Financial assets: At Amortised Cost
 Financial liabilities: At amortised cost
 Financial Assets: At Fair Value

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities are assumed.

The amounts relating to financial instruments reflected below approximates fair value

	2019			Restated 2018		
	Financial Instruments at Amortised Cost	Non financial assets	Total	Financial Instruments at Amortised Cost	Non financial assets	Total
	R	R	R	R	R	R
ASSETS						
Property, Plant and Equipment		17,375,470,029	17,375,470,029		16,460,414,172	16,460,414,172
Heritage Assets		216,705,687	216,705,687		229,450,493	229,450,493
Intangible Assets		368,593,280	368,593,280		442,600,198	442,600,198
Investment Property		215,618,058	215,618,058		220,379,727	220,379,727
Long-term Receivables - Exchange Transactions	60,508,659		60,508,659	50,395,448		50,395,448
Long-term Receivables - Non-exchange Transactions		29,687,964	29,687,964		27,209,149	27,209,149
Inventory		132,843,468	132,843,468		162,275,532	162,275,532
Trade Receivables - Exchange Transactions	1,628,698,450		1,628,698,450	1,318,332,433		1,318,332,433
Other Receivables	641,098,924		641,098,924	786,037,115		786,037,115
VAT		0	0		42,935,069	42,935,069
Current portion of long-term receivables	0		0	0		0
Short-term investment deposits (excluding Sanlam Shares)	3,009,413,994		3,009,413,994	2,371,934,859		2,371,934,859
Bank balances and cash	195,360,017		195,360,017	204,892,230		204,892,230
	5,535,080,044	18,338,918,486	23,873,998,530	4,731,592,085	17,585,264,340	22,316,856,425

	Financial Instruments at Amortised Cost	Non financial liabilities	Total	Financial Instruments at Amortised Cost	Non financial liabilities	Total
	R	R	R	R	R	R
LIABILITIES						
Long-term Liabilities	1,116,776,821		1,116,776,821	1,208,011,203		1,208,011,203
Employee Benefit Obligation		2,187,691,857	2,187,691,857		2,089,611,527	2,089,611,527
Non-current Provisions		478,738,801	478,738,801		388,930,365	388,930,365
Consumer deposits	153,380,769		153,380,769	148,632,182		148,632,182
Current Employee Benefit Obligation		202,253,435	202,253,435		180,128,968	180,128,968
Current Provisions		82,002	82,002		38,771,537	38,771,537
Trade and Other Payables	2,288,366,816		2,288,366,816	2,366,578,795		2,366,578,795
VAT		71,140,815	71,140,815		0	0
Current Portion of Long-term Liabilities	89,658,501		89,658,501	79,760,410		79,760,410
	3,648,182,907	2,939,906,910	6,588,089,817	3,802,982,590	2,697,442,397	6,500,424,987

Net Assets 17,289,106,942 17,289,106,942 15,819,298,632 15,819,298,632

	Financial Asset at Fair Value		Financial Asset at Fair Value	
	R	R	R	R
Sanlam Shares - Valued at the open market value	3,198,229	(3,198,229)	2,867,194	(2,867,194)
	1,890,095,368	(1,890,095,368)	931,476,689	(931,476,689)

	2019	Restated 2018
Financial Asset at amortised cost		
Opening balance	4,731,592,085	3,607,411,454
Net other movements	803,487,959	1,124,180,631
Closing balance	5,535,080,044	4,731,592,085
Financial liabilities at amortised cost		
Opening balance	3,802,982,590	3,207,616,214
Net other movements	(154,799,683)	595,366,376
Closing balance	3,648,182,907	3,802,982,590

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

53 EXPLANATION FOR OPERATING VARIANCES:

APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2018 as approved by National Treasury.

The Original Budget was approved on 13 June 2018 for the 2018/19 financial year (01 July 2018 to 30 June 2019), and the Final Budget was approved on 28 February 2019.

NMBM uses the accrual basis of accounting for its Budget.

The reconciliation of the Original approved Budget and Final Adjustment Budget and Actual amounts are shown on the face of the Statement of Financial Performance, with the reasons in variances explained below.

ACTUAL VERSUS APPROVED FINAL ADJUSTMENT BUDGET (REVENUE AND EXPENDITURE)

Explanations of Significant Variances greater than 10% versus Budget - The 10% threshold was considered to be the best indicator to meet performance.

1 Interest earned - Investments

Interest increased due to strict cash flow management. The extent of the investment portfolio was impacted by higher levels of unspent conditional grants during the financial year.

2 Interest raised - Outstanding Debtors

Interest increased due to non payment of outstanding debt by consumers and the implementation of punitive tariff for water usage due to drought conditions.

3 Licences and Permits

Due to the ad hoc nature of this income source, accurate income projections are not possible.

4 Rental of facilities and equipment

Due to under utilisation of the facilities during the financial year.

5 Other Revenue

Due to the ad hoc nature of this income source, accurate income projections are not possible.

6 Fines, Penalties and Forfeits

Due to an accurate assessment of actual outstanding Traffic Fines the revenue as well as the impairment of Traffic Fines were adjusted accordingly

7 Dividends received

The dividend income relates to the Sanlam shares.

8 Impairment - Receivables

Due to the increase in tariffs as a result of water restrictions caused debt to increase resulting in non-payment of outstanding debt by consumers.

9 Impairment - Other

Less Traffic Fines was impaired than initially anticipated.

10 Transfers and Subsidies

Due to the underspending on the allocations given to the entity - MBDA.

11 Contracted Services

Due to National Government Policy change relating to the housing top structure allocation from National Government directly to HDA (Housing Development Agency) .

12 Other Expenditure

Due to the Operational Efficiencies Cost Containment spending effort of Council. .Underspending on Software Licences, Levies Projects and the downward adjustment in respect of Provision for Litigation contributed to the underspending.

13 Other Materials

Due to under utilisation of consumables by Directorates.

14 Depreciation

The overspending is due to change in useful lives of the assets.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY											
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019											
54. EXPLANATION FOR CAPITAL VARIANCES:											
APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET (CONTINUED):											
ACTUAL EXPENDITURE VERSUS 2018/19 CAPITAL BUDGET	Approved 2018/19 Capital Adjustments Budget	Additional USDG Capital Funding	Budget Amendment / Movements between Capital and Operating Budget	Budget Amendment / Movement between Directorates	Reduction + re- distribution of IPTs Grant funds as per DOT	Additional Capital Funding Received - SANEDI	Total Revised 2018/19 Capital Adjustments Budget	2018/19 Actual Expenditure as at 30 June 2019	Variance	% Variance	Explanation of Variances greater than 10 %
Budget & Treasury	24,942,500	0	0	0	0	0	24,942,500	2,390,676	22,551,824	90	The variance is mainly attributable to the system enhancements project related to the ERP system. The service provider is currently off-site while a dispute is being investigated. The pending outcome will influence the cash flow for the remaining year. Since there has been no outcome as at 30 June 2019, the funds will remain unspent
Public Health	54,308,234	34,782,606	0	0	0	0	89,090,840	84,355,528	4,735,312	5	Urban Refuse Transfer Station - The tender for this project was been awarded in May 2018 but the Service Level Agreement was finally signed on the 31 January 2019, the registration by DEDEAT was approved on. The WULA (Water Usage Licence) was approved on the 11 April 2019. The Service Provider should have been on site in April 2019, however the Directorate has advised that the Contractor will only be on site in the beginning of May 2019. Directorate has confirmed that they are currently capturing all outstanding invoices and that the project will be fully spent by 30 June 2019. Replacement of Refuse Compactor - The full budget was committed, however the vehicles have not yet been delivered to NMBM
Corporate Services	52,215,000	0	0	0	0	0	52,215,000	17,586,219	34,628,781	66	The main variance can be attributed to the purchase of IT Servers and Equipment. he latest information provided by the Project Manager is that the Tender to procure replacement of IBM AS400 has closed and the process is now at the Adjudication Stage for the approval of the award. The Capital Project for EMS Enhancements could not commence until the issues surrounding the completion and implementation of the EMS are resolved, therefore the budget will remained unspent in the 2018/19 financial year
Sanitation Service	252,558,946	0	-7,800,000	-3,200,000	0	0	241,558,946	216,888,015	24,670,931	10	
Water Service	524,534,781			7,224,500	0	0	531,759,281	344,201,174	187,558,107	35	Variances can be attributed to the following: Municipal Disaster Recovery Grant - R203 million was incorporated into the Adjustments Budget. The Directorate has made it known that only R28 million of the total funds will be able to be spent by 30 June 2019 due to time constraints and SCM processes that still need to be undertaken. A request for carry-over will be done.
NMBM Stadium	13,000,000	0	0	0	0	0	13,000,000	1,389,089	11,610,911	89	
Executive and Council (COO)	4,631,956	0	0	-977,710	0	0	3,654,246	3,654,247	(1)	-0	
Electricity & Energy	238,829,829	113,043,479	0	0	0	9,884,259	361,757,567	275,236,035	86,521,531	24	The variances relate to the following Capital Projects: Replacement of Plant and Motor Vehicles - Fleet Management currently has no tender in place since they were using the transversal tender of NT. NT is still in process of renewing the tender Mayoral Project for Electrification of Ramaphosa - The work that was identified in this project was subsequently redirected to USDG funding project
	1,991,831,171	173,913,041	1,992,002	1,922,730	(38,007,004)	9,884,259	2,141,536,199	1,674,493,880	467,042,319	23	

NOTE 55.1
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2019

	COST								ACCUMULATED DEPRECIATION								Carrying Value
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	WIP Acquisition	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Useful lives adjustment	Additions	Disposals	Impairment	Closing Balance	
Land & Buildings																	
Buildings	957,672,233	-	-	14,462,773	8,747,707	-	-	980,882,713	274,383,069	-	274,383,069	-	35,849,667	-	-	310,232,736	670,649,977
Land	1,109,629,390	-	997,557	33,385,266	-	-	-	1,144,012,213	-	-	-	-	-	-	-	-	1,144,012,213
	2,067,301,623	-	997,557	47,848,039	8,747,707	-	-	2,124,894,926	274,383,069	-	274,383,069	-	35,849,667	-	-	310,232,736	1,814,662,190
Infrastructure Assets																	
Roads, Sidewalks & Stormwater Network	6,792,973,149	759,564	23,705,194	221,362,979	369,634,219	-	-	7,408,435,105	2,311,021,391	-	2,311,021,391	-	259,350,620	-	-	2,570,372,010	4,838,063,094
Beach Developments	69,539,432	-	-	2,783,308	952,978	-	-	73,275,718	15,500,252	-	15,500,252	-	1,856,657	-	-	17,356,908	55,918,810
Electricity Reticulation & Supply	3,199,776,517	231,722	-	208,418,545	2,091,641	-	-	3,410,518,425	1,051,982,957	-	1,051,982,957	-	105,274,081	-	-	1,157,257,038	2,253,261,387
Fencing	122,729,265	-	-	30,905,028	4,197,238	-	-	157,831,531	29,780,970	-	29,780,970	-	11,982,735	-	-	41,763,706	116,067,825
Sewerage Mains & Purification Works	2,853,821,898	507,541	-	27,692,829	206,024,721	-	-	3,088,046,989	1,029,028,590	-	1,029,028,590	-	116,234,739	-	-	1,145,263,329	1,942,783,660
Waste Disposal Facilities	45,011,547	87,946	-	-	2,199,648	-	-	47,299,141	1,992,470	-	1,992,470	-	3,410,503	-	-	4,418,033	43,888,638
Water Supply & Reticulation	2,451,440,773	-	-	119,932,026	183,430,031	-	-	2,754,802,830	782,508,405	-	782,508,405	-	87,178,473	-	-	869,686,879	1,885,115,951
Dams & Treatment Works	1,391,367,446	-	-	9,335,312	53,132,561	-	-	1,453,835,319	238,751,652	-	238,751,652	-	42,214,894	-	-	280,966,546	1,172,868,773
Wi-Fi Infrastructure	6,604,949	-	-	-	-	-	-	6,604,949	1,129,181	-	1,129,181	-	1,320,990	-	-	2,450,171	4,154,779
	16,933,264,976	1,586,773	23,705,194	620,430,027	821,663,037	-	-	18,400,650,007	5,461,695,868	-	5,461,695,868	-	626,831,222	-	-	6,088,527,090	12,312,122,918
Community Assets																	
Libraries	34,744,516	-	-	-	7,002,055	-	-	41,746,571	13,435,409	-	13,435,409	-	906,889	-	-	14,342,298	27,404,273
Library Books	89,801,561	-	9,243,443	-	-	-	-	98,321,306	31,534,038	-	31,534,038	-	1,974,311	-255,234	-	33,763,583	64,557,723
Fire Stations	73,667,610	-	-	628,968	862,185	823,698	-	75,158,763	22,269,544	-	22,269,544	-	3,054,652	-	-	25,324,196	49,834,567
Cemeteries	92,608,896	-	-	-	7,305,207	-	-	99,914,103	16,671,585	-	16,671,585	-	4,853,057	-	-	21,524,642	78,389,461
Clinics	5,482,948	-	-	-	261,522	-	-	5,744,470	1,148,454	-	1,148,454	-	215,942	-	-	1,364,397	4,380,074
Community Centres	260,661,730	-	-	3,522,753	4,481,992	-	-	268,666,475	76,966,493	-	76,966,493	-	8,409,848	-	-	85,376,342	183,290,133
Public Conveniences	9,530,835	-	-	2,832,783	-	-	-	12,363,618	3,139,278	-	3,139,278	-	284,416	-	-	3,423,694	8,939,924
Swimming Pools	86,685,903	-	-	1,020,882	2,988,913	-	-	90,695,698	26,317,941	-	26,317,941	-	2,170,695	-	-	28,488,636	62,207,062
Recreational Facilities	2,755,622,743	-	7,729,650	70,703,474	7,761,450	-	-	2,841,817,317	700,123,057	-	700,123,057	-	75,797,462	-	-	775,920,519	2,065,896,798
Selling & Letting Schemes	64,602,172	-	-	-	-	-	-	64,602,172	39,993,443	-	39,993,443	-	1,169,151	-	-	41,162,594	23,439,579
	3,473,508,913	-	16,973,093	78,708,860	30,663,324	823,698	-	3,599,030,493	931,599,242	-	931,599,242	-	98,836,424	-255,234	-	1,030,690,900	2,568,339,593
Other Assets																	
Bins & Containers	26,574,939	-	-	651,368	2,756,946	-	-	29,983,253	6,659,585	-	6,659,585	-	2,853,926	-	-	9,513,511	20,469,741
Vehicles & Plant	618,830,896	-	-	22,068,440	-	-	-	640,899,336	373,258,691	-	373,258,691	-	53,582,010	-	-	426,840,701	214,058,635
Office Furniture & Fittings	219,463,406	-	-	7,714,372	-	1,275,662	-	225,902,116	181,989,900	-	181,989,900	-	4,388,996	1,222,562	-	185,156,334	40,745,782
Air Monitoring Facilities	24,511	-	-	-	-	-	-	24,511	10,518	-	10,518	-	1,107	-	-	11,626	12,885
Security Systems	10,395,538	-	-	-	10,395,538	-	-	10,169,714	10,169,714	-	10,169,714	-	225,823	-	-	10,395,537	1
Tip Sites	394,013,684	-	93,808,243	-	4,578,900	-	-	492,400,827	98,466,461	-	98,466,461	-	45,099,162	-	-	143,565,623	348,835,204
Computer Hardware	170,888,378	-	-	11,976,967	-	501,803	-	182,363,542	116,924,612	-	116,924,612	-	9,661,426	445,575	-	126,140,463	56,223,079
	1,440,191,351	-	93,808,243	42,411,147	7,335,846	1,777,465	-	1,581,969,122	787,479,480	-	787,479,480	-	115,812,451	1,668,137	-	901,623,794	680,345,327
	23,914,266,864	1,586,773	135,484,087	789,398,073	868,409,914	2,801,163	-	25,706,544,549	7,455,157,660	-	7,455,157,660	-	877,329,764	1,412,903	-	8,331,074,520	17,375,470,028

NOTE 55.1(CONTINUED)
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2019

	COST								ACCUMULATED AMORTISATION								Carrying Value
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	WIP Acquisition	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Useful lives adjustment	Additions	Disposals	Impairment	Closing Balance	
Intangible																	
Computer Software	601,049,807	-	-	-	16,807,127			617,856,934	158,449,609		158,449,609		90,814,045		-	249,263,654	368,593,280
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INVESTMENT PROPERTY AS AT 30 JUNE 2019																	
	COST								ACCUMULATED DEPRECIATION								Carrying Value
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	WIP Acquisition	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Useful lives adjustment	Additions	Disposals	Impairment	Closing Balance	
Investment Property																	
Land & Buildings	289,847,528	-	-	-	794,620			290,642,148	69,467,801	-	69,467,801		5,556,289			75,024,090	215,618,058
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF HERITAGE ASSETS AS AT 30 JUNE 2017																	
	COST								ACCUMULATED DEPRECIATION								Carrying Value
	Opening Balance	Transfers / Adjustments/	Take-On	Acquisitions	WIP Acquisition	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Useful lives adjustment	Additions	Disposals	Impairment	Closing Balance	
Heritage Assets																	
Heritage Buildings	159,204,958		1,006,558	-	-		15,820,657	144,390,859	-		-	-	-	-	-	-	144,390,859
Memorials & Statues	46,000,773		2,069,293	-	-			48,070,066	-		-	-	-	-	-	-	48,070,066
Land	6,655,783			-	-			6,655,783	-		-	-	-	-	-	-	6,655,783
Art Works	17,538,979			-	-			17,538,979	-		-	-	-	-	-	-	17,538,979
	229,450,493	-	3,075,851	-	-	-	15,820,657	216,705,687	-	-	-	-	-	-	-	-	216,705,687
Grant Totals Assets	25,034,614,691	1,586,773	138,559,938	789,398,073	886,011,661	2,601,163	15,820,657	26,831,749,317	7,683,075,069	-	7,683,075,069	-	973,700,098	1,412,903	-	8,655,362,264	18,176,387,053

The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period is in accordance with GRAP 26. There were no transfers from PPE to Inventory.

NOTE 55.2
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
WORK IN PROGRESS (WIP) / UNDER-CONSTRUCTION included in the
acquisitions as per note 55.1

PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2019

Details	Amount
Land & Buildings	
Buildings	8,747,707
	8,747,707
Infrastructure Assets	
Roads, Sidewalks & Stormwater Network	369,634,219
Beach Developments	952,978
Electricity Reticulation & Supply	2,091,641
Fencing	4,197,238
Sewerage Mains & Purification Works	206,024,721
Waste Disposal Facilities	2,199,648
Water Supply & Reticulation	183,430,031
Dams & Treatment Works	53,132,561
	821,663,037
Community Assets	
Libraries	7,002,055
Fire Stations	862,185
Cemeteries	7,305,207
Clinics	261,522
Community Centres	4,481,992
Swimming Pools	2,988,913
Recreational Facilities	7,761,450
	30,663,324
Other Assets	
Tip Sites	4,578,900
Bins & Containers	2,756,946
	7,335,846
	868,409,914
INTANGIBLE ASSETS AS AT 30 JUNE 2019	
Details	Amount
Intangible	
Computer Software	16,807,127
INVESTMENT PROPERTY AS AT 30 JUNE 2019	
Details	Amount
Investment Property	
Land & Buildings	794,620
HERITAGE ASSETS AS AT 30 JUNE 2019	
Details	Amount
Heritage Assets	-
Grand Total	886,011,661

Some property, plant and equipment have taken a longer period to complete than expected, due to delays.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

56 EXPLANATION FOR VARIANCES:

APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2018 as approved by National Treasury.

The Original Budget was approved on 13 June 2018 for the 2018/19 financial year (01 July 2018 to 30 June 2019), and the Final Adjustment Budget was approved on 28 February 2019.

NMBM uses the accrual basis of accounting for its Budget.

The reconciliation of the Original approved Budget and Final Adjustment Budget and Actual amounts are shown on the face of the Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows, with the reasons in variances explained below.

56.1 ACTUAL VERSUS APPROVED FINAL ADJUSTMENT BUDGET (STATEMENT OF FINANCIAL POSITION)

Explanations of Significant Variances greater than 10% versus Budget - The 10% threshold was considered to be the best indicator to meet performance targets.

1 Total Accumulated Funds

The accumulated funds variance is affected by all the other variances and their explanations are given below.

2 Long-term Liabilities

Decrease due to loans reaching the end of their term.

3 Non-Current Provisions - Other

These provisions are calculated by experts, of which various factors are taken into account to determine the valuation.

4 Current Provisions - Employee Benefits

These provisions are calculated by experts, of which various factors are taken into account to determine the valuation.

5 Intangible Assets

The variance is due to a re-assessment of the useful lives.

6 Long-term Receivables

The variance is as a result of an increase in consumer debt, resulting in consumers requesting debt to be paid off over a longer period.

7 Inventory

The reduction is due to the write-out of land stock.

8 Other Receivables

The reduction is due to less monies owing by our entity - MBDA

9 Call deposits and Investments

There is a significant increase in that due to additional funding received for Drought relief and USDG.

56.2 ACTUAL VERSUS APPROVED FINAL ADJUSTMENT BUDGET (STATEMENT OF CASH FLOWS)

Explanations of Significant Variances greater than 10% versus Budget - The 10% threshold was considered to be the best indicator to meet performance.

1 Dividends received

The dividend income relates to the Sanlam shares, which is adhoc in nature.

2 Interest received

Interest increased due to strict cashflow management.

3 Cash paid to Suppliers

Comparing to the prior year's actual, it was anticipated that payments will be more, hence the increase in the budget.

4 Purchase of Intangibles Assets, Investment Property, Heritage Assets

Less acquisitions than anticipated.

Appendix A - Unaudited									
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY									
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019									
2018	Actual	2018	2018		2019	Actual	2019	Actual	2019
Income		Actual	Surplus/		Income		Expenditure		Surplus/
		Expenditure	(Deficit)						(Deficit)
30,958,217		239,322,775	(208,364,558)	Executive and Council	13,937,247		262,192,751		(248,255,504)
2,883,352,011		763,464,832	2,119,887,179	Budget and Treasury	3,334,705,171		762,303,807		2,572,401,364
48,811,673		349,671,475	(300,859,802)	Corporate Services	20,056,438		363,309,576		(343,253,138)
358,656,235		573,188,216	(214,531,981)	Public Health	409,088,576		659,300,823		(250,212,247)
264,905,329		220,277,797	44,627,532	Human Settlements	250,110,803		209,439,438		40,671,365
567,254,939		818,459,052	(251,204,113)	Safety and Security	440,916,440		915,163,967		(474,247,527)
384,468,635		393,794,101	(9,325,466)	Infrastructure and Engineering - R & G	399,504,314		854,716,489		(455,212,175)
1,520,348,502		1,050,694,310	469,654,192	Water	1,417,494,311		957,911,222		459,583,089
3,732,739,811		3,469,978,041	262,761,770	Electricity and Energy	3,909,952,327		3,751,789,745		158,162,582
112,820,216		134,620,967	(21,800,751)	Economic Development, Tourism and	117,033,264		196,424,878		(79,391,614)
28,367,733		377,764,409	(349,396,676)	Sports, Recreation, Arts and Culture	32,029,421		401,049,633		(369,020,212)
955,681,745		476,041,910	479,639,835	Sanitation	1,015,022,308		537,954,304		477,068,004
4,461,935		38,559,080	(34,097,145)	NMBM Stadium	19,939,591		36,705,253		(16,765,662)
21,043,469		7,504,037	13,539,432	Special Projects	7,075,252		8,795,267		(1,720,015)
<u>10,913,870,450</u>		<u>8,913,341,002</u>	<u>2,000,529,448</u>	Total	<u>11,386,865,463</u>		<u>9,917,057,153</u>		<u>1,469,808,310</u>

Appendix B

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

DISCLOSURES OF CONDITIONAL GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2019

Name of Grants	Name of Organ of State	Quarterly Receipts				Total Funds Received	Quarterly Expenditure					Reasons for Delay	Did Municipality comply with grant conditions
		July-Sept	Oct-Dec	Jan- Mar	April-June		July-Sept	Oct-Dec	Jan- Mar	April-June	Total Spent		
Financial Management Grant	NT	1,000,000	-	-	-	1,000,000	194,173	252,252	195,661	357,914	1,000,000	N / A	Yes
National Electrification Programme	DME	8,648,000	7,000,000	3,855,000	-	19,503,000	3,893,602	8,685,124	4,147,340	1,964,448	18,690,514	N / A	Yes
Urban Settlement Development Grant	DPLG	181,133,000	293,077,000	631,454,000	-	1,105,664,000	124,755,102	170,964,004	147,976,506	322,713,628	766,409,240	N / A	Yes
Transport or PTIS	NT	76,235,000	76,235,000	123,065,000	-	275,535,000	33,242,334	19,263,193	39,641,447	75,782,314	167,929,288	N / A	Yes
Neighbourhood Development Partnership Grant	NT	-	-	-	-	-	-	-	-	-	-	N / A	Yes
Expanded Public Works Programme Intergrated Grant	NT	1,678,000	3,020,000	2,013,000	-	6,711,000	577,251	1,619,164	1,388,865	1,763,734	5,349,014	N / A	Yes
Infrastructure Skill Development Grant	NT	4,733,000	-	7,101,000	-	11,834,000	3,165,046	3,154,278	2,536,941	6,762,696	15,618,961	N / A	Yes
Intergrated City Development Grant	NT	6,178,000	6,177,000	-	-	12,355,000	6,350	-	1,501,061	3,585,549	5,092,960	N / A	Yes
Disaster Relief Grant	NT	-	-	233,400,000	-	233,400,000	-	-	3,376,579	15,010,494	18,387,073	N / A	Yes

Appendix C - Unaudited
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
TOTAL ACCUMULATED FUNDS FOR THE YEAR ENDED 30 JUNE 2019

TOTAL ACCUMULATED FUNDS	2019 R	Restated 2018 R
Made up as follows:		
Housing Development Fund	0	109,731,779
Capital Replacement Reserve	45,047,783	158,478,197
Government Grants Reserve	9,849,354,749	8,643,493,955
Donations and Public Contributions Reserves	448,968,182	425,192,942
Self-Insurance Reserve	60,000,000	142,995,139
COVID Reserve	41,321,868	37,185,503
Accumulated Surplus	6,844,414,360	6,302,221,117
	17,289,106,942	15,819,298,632